

June 1993

FINANCIAL AUDIT

Examination of
Customs' Fiscal
Year 1992 Financial
Statements





United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-252376

June 30, 1993

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our efforts to audit the Principal Financial Statements of the U.S. Customs Service for fiscal year 1992. As part of this effort, we evaluated Customs' internal controls and its compliance with laws and regulations related to the financial statements. Pursuant to the Chief Financial Officers Act of 1990 (Public Law 101-576), Customs was required to prepare agencywide financial statements for fiscal year 1992 and have them audited. As authorized by the act, we attempted to perform an audit of these statements.

We were unable to express an opinion on the reliability of the fiscal year 1992 Principal Financial Statements of Customs because of the lack of reliable financial information, inadequate financial systems and processes, and its ineffective internal control structure.

In addition, we found that Customs' internal controls did not effectively safeguard assets, provide a reasonable basis for determining material compliance with relevant laws and regulations, and assure that there were no material misstatements in the Principal Financial Statements. However, we were unable to test all significant controls due to limited supporting information.

Further, we found no instances of material noncompliance with laws and regulations during fiscal year 1992.

We are sending copies of this report to the Commissioner of Customs; the Secretary of the Treasury; the Director of the Office of Management and Budget; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the Senate Committee on Finance, the House Committee on Government Operations, the House Committee on Ways and Means, the Subcommittee on Commerce, Consumer and

Monetary Affairs, House Committee on Government Operations, the Subcommittee on Oversight, House Committee on Ways and Means; and other interested parties. Copies will be made available to others upon request.

A handwritten signature in black ink that reads "Charles A. Bowsher". The signature is written in a cursive style with a large, prominent initial "C".

Charles A. Bowsher
Comptroller General
of the United States

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Abbreviations

ACS	Automated Commercial System
ADP	automated data processing
CFO	Chief Financial Officers Act
FMFIA	Federal Managers' Financial Integrity Act
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget

**Comptroller General
of the United States**

B-252376

June 30, 1993

To the Commissioner of the Customs Service

In accordance with the Chief Financial Officers (CFO) Act of 1990, the United States Customs Service prepared the accompanying consolidated financial statements (Principal Statements) for the fiscal year ended September 30, 1992. With reported collections of over \$20 billion for fiscal year 1992, Customs is second only to the Internal Revenue Service in terms of federal revenues. Historically, Customs has filed unaudited financial information with the Department of the Treasury; however, the fiscal year ended September 30, 1992, was the first year for which Customs prepared a comprehensive set of Principal Statements that were subject to an audit. As authorized by the CFO Act, we elected to perform the audit of these statements. Customs fully cooperated with us and has made progress towards developing reliable information.

The results of our audit are summarized as follows:

- We were unable to express an opinion on the reliability of the fiscal year 1992 Principal Statements of Customs because of the lack of reliable financial information, inadequate financial systems and processes, and its ineffective internal control structure. Further, we concluded that important financial management information reported by Customs internally for management purposes and externally to the Congress, the Office of Management and Budget, and others was also based on incomplete or unreliable data.
- In our opinion, internal controls were not properly designed and implemented to effectively safeguard assets, provide a reasonable basis for determining material compliance with laws governing the use of budget authority and other laws and regulations, and assure that there were no material misstatements in the Principal Statements. However, we were unable to evaluate and test all significant internal controls due to limited supporting information.
- We were also unable to give any assurance on the information contained in the Overview to the Principal Statements and Supplemental Financial and Management Information because this information came from many of the same financial management systems and were subject to the same poor internal control structure.
- Our tests for compliance with selected provisions of laws and regulations disclosed no material instances of noncompliance.

Customs faces major challenges in developing meaningful and reliable financial management information and in establishing a sound internal control structure, as envisioned by the CFO Act. Customs' officials have expressed their commitment to these goals, and recognize that a significant and sustained commitment by Customs' management, particularly by the CFO and his staff, will be required. Acting on this commitment, Customs has implemented corrective actions or begun to correct problems noted during the financial audit.

Significant Matters

Our audit has identified a number of critical financial management problems that require attention, and we therefore believe that there is a high potential return on a greater investment in the financial management function. For years, until the passage of the CFO Act, Customs lacked financial management leadership with sufficient expertise, responsibility, and authority to ensure that its financial systems, processes, and internal controls fully supported Customs' financial information needs. Over time, this lack of leadership resulted in financial management systems and processes that were unable to provide critical and reliable financial information. Certain key internal controls were not established or were not followed to ensure that data entered, processed, summarized, and reported reflected Customs' actual operations. These problems presented substantial challenges to Customs in preparing these Principal Statements, some were met and others were not.

We found that Customs had material weaknesses in internal controls over many significant areas which could lead to (1) material loss of assets, (2) noncompliance with laws and regulations, and/or (3) material misstatements in the Principal Statements. The critical financial management problems that require attention are summarized below. Details will be communicated along with our recommendations for improvements in separate reports.

Financial Reporting

Customs' core financial systems did not provide complete and accurate information that could be used to prepare its Principal Statements. To prepare them, Customs and its outside contractor performed extensive work to construct the reported statement balances and related support from available information. In many instances, these efforts were not successful. In some instances we could not test information due to the

lack of underlying support and, in other instances, the tested supporting information was found to be unreliable.

In preparing its financial statements as of September 30, 1992, Customs made over 180 adjusting entries, amounting to billions of dollars, to its accounting records as of September 30, 1992. We found that Customs could not support or explain many of these entries and some of the balances in the statements were forced. For example, neither the core accounting records nor the subsidiary records supported Customs' reported operating net financial position of about \$1.3 billion; this figure was derived to force the Consolidated Statement of Financial Position to balance. Such forced amounts diminish the credibility of the reported information and demonstrate the need for the discipline and accountability imposed by financial statement audits to provide the Congress and other decisionmakers with reliable information.

We also found several instances where Customs' financial statements and related notes did not adequately disclose significant information.

- Customs did not fully disclose its historical experience on seizures that were ultimately returned to the owner and the related reasons.
- Customs did not disclose that it had 28 aircraft on loan from the U.S. military valued at about \$142 million, that it is generally liable for damage or loss of loaned aircraft, and that it had incurred such charges in the past.
- Customs materially misstated the amount of revenues reported as allocated to the Department of Agriculture in its Consolidated Statement of Operations and Changes in Net Position. Customs reported allocated revenues to Agriculture of only \$41 million; however, Public law 74-320 states that 30 percent of the \$18.3 billion of duties collected should be allocated to Agriculture. Thus, about \$5.5 billion should have been presented on the statement as allocated to Agriculture.
- Customs did not fully disclose in its commitments and contingencies note an amount of probable costs—estimated by its general counsel at more than \$100 million—expected to be paid either from the Judgment Fund or from the Customs appropriation for refunds and drawbacks.

Finally, Customs did not report in its financial statements actual operating expenses by budget program, as required by the Office of Management and Budget (OMB). Because Customs did not have a cost system or a reasonable basis by which to provide such information, it reported operating expenses based on object classifications. We found in some cases that Customs used the wrong object classification to designate its

expenses and cannot properly separate Customs expenses from interagency expenses. Thus, when this accounting information is summarized and reported, the Congress and other users do not have an accurate picture of where Customs spent its \$1.46 billion in appropriations.

Custodial Accounts Receivable

As of September 30, 1992, Customs reported custodial accounts receivable of approximately \$828 million which represented about 74 percent of the custodial assets that Customs held and was managing on behalf of the federal government. This amount included gross receivables of about \$901 million, less an allowance for uncollectible accounts of \$73 million. Customs' internal controls over accounts receivable were so poor that we could not gain assurance that all valid receivables were included in its reported amounts. Further, Customs' accounts receivable, as of September 30, 1992, did not include certain valid receivables; included some receivables at a net amount instead of gross; and in some instances included receivables which could not be supported. For example, the reported \$901 million in gross accounts receivable included only \$26 million for fines and penalties and excluded an indeterminate amount of fines and penalties cases. Customs' records did not show what amount was owed for these cases as of September 30, 1992. These misstatements distort gross receivables owed to Customs, as well as Customs' expected collection experience.

Also, Customs' methodology for estimating the collectibility of its receivables was unreliable and resulted in a significant misstatement of accounts receivable. Our tests showed that Customs' methodology was flawed because it considered primarily historical collection experience but did not consider the debtor's current ability to pay. We applied a methodology that included an assessment of the debtor's ability to pay to a sample of valid receivables as of June 30, 1992, of \$403 million, which included gross fines and penalties receivables. We also applied Customs' methodology to the same accounts. Our methodology showed that an additional \$41 million would likely not be collected.

We also found that detailed records of who owed Customs were not routinely reconciled nor updated in a timely manner. In addition, the records included debtors that did not owe Customs and excluded some that did. The problems were particularly evident in receivables resulting from fines and penalties and supplemental duty assessments. Consequently, Customs did not have an accurate record of who owed it

money, or how much, for two of its largest accounts receivable categories. In addition, Customs' efforts to collect what was owed were compromised by missing documentation needed to support the amounts owed. Further, its ability to collect amounts due the U.S. government was also limited by

- delayed final determination of Customs duties—in many cases more than 1 year after the release of the imported merchandise;
- lack of controls to assure that bonding requirements for importers were sufficient to protect against their failure to pay;
- long delays in processing supplemental duty bills protested by importers; and
- failure to maintain adequate control over documents needed to collect balances due and inadequate follow-up on amounts due.

As a result of our audit, Customs plans to change how it determines the accounts receivable balance for September 30, 1993. Additionally, Customs has begun to modify its methodology for estimating collectibility. Customs recognizes the challenge it faces in collecting its receivables and has begun efforts to improve its collection practices. Correcting these problems will be difficult because Customs does not have financial management systems in place that provide current and accurate information on the status of its receivables.

Because of the severity of the problems that must be dealt with, it will take a substantive effort by Customs' management before it has reliable information with which to monitor and evaluate its performance in collecting receivables or determining how much the federal government is owed and can reasonably expect to collect.

Seized Property

As part of its enforcement duties, Customs seizes property¹ including cash, luxury automobiles, jewelry, illegal drugs, firearms, and other valuable or potentially dangerous property. Although Customs had established policies and procedures to assure proper accountability and stewardship of these items, it did not always follow them. Internal control weaknesses were evident throughout the seized property process, from the time property is first seized until it is disposed of. Opportunities for these goods to be stolen or misappropriated without detection were pervasive and

¹We have previously reported on various issues regarding seized/forfeited assets. Such reports include Asset Forfeiture Programs (GAO/HR-93-17, December 1992); Asset Forfeiture: Customs Reports Improved Controls Over Sales of Forfeited Property (GAO/GGD-91-127, September 25, 1991); and Oversight Hearings on Asset Forfeiture Programs (GAO/T-GGD-90-56, July 24, 1990).

such occurrences could result in financial loss to the government or danger to the general public.

In preparing its financial statements, Customs made net adjustments of about \$281 million to its fiscal year 1992 seizures amount and net adjustments of \$52 million to its September 30, 1992 seized property inventory. However, Customs could not provide us with support for the adjustments. After making the adjustments, Customs reported \$542 million in seizures during fiscal year 1992 and an ending balance of \$489 million in seized property in the notes to its Principal Statements as of September 30, 1992.

Customs' records to control, manage, and report seized property were incomplete and inaccurate. Specifically, these records (1) did not include large quantities of seized property, (2) showed incorrect location data for some items, (3) included erroneous values, such as those for counterfeit items, and (4) included seizures and forfeitures that occurred in another fiscal year. For example, we found several instances of drugs that were on hand that were not in the seized property records. Also, our analysis of the value of property seized in fiscal year 1992, as recorded in the seized property records, showed that Customs overstated this amount by about \$138 million. This amount was overstated because Customs included items for which it never took possession. In addition, our analysis of about half of the recorded value of fiscal year 1992 seizures for which Customs took possession and seized property on hand as of September 30, 1992, showed these amounts to be overvalued by approximately \$217 million and \$113 million, respectively.

With regard to safeguarding seized property, Customs often used weak and inconsistent procedures. We noted such specific problems as

- delayed transfer of confiscated property from seizing officers to custodians;
- seized drugs not being properly weighed and tested;
- delayed deposits of cash or deposits in non-Treasury accounts with insufficient insurance or collateral protection; and
- storage facilities not properly protected, for example, open physical access, no security cameras, and insufficient control over access by personnel.

Given the wide-range of control weaknesses noted and the significant errors that we found, Customs will have to make a substantive effort to ensure that seized property records are accurate and complete.

Property

Customs is responsible for managing and reporting its property, plant, and equipment, which is valued in the financial statements at \$710 million. Approximately 85 percent of this amount consisted of equipment, such as aircraft, vehicles, and vessels. Some of this equipment contains highly sensitive detection and surveillance items used by Customs in its drug enforcement activities.

The values for these assets were based on property and accounting records that were unreliable, and the assets themselves were not adequately safeguarded against theft or misappropriation. We found that Customs (1) was unable to reconcile its accounting records and related detailed property subsidiary records to ensure that all property items were properly accounted for and valued, (2) did not perform physical inventories of all nonequipment items and performed ineffective physical inventories of equipment, and (3) was unable to support the values assigned to property, primarily because, for many items, appropriate procurement documents were not available and, in some instances, Customs used unrealistic estimates. For example, Customs could not provide documentation to support values totaling over \$9 million assigned to 335 of the 706 items we tested. In addition, as a result of our analysis of all property records in the property system, we found 735 instances in which the assigned values for equipment items appeared to be estimates.

Further, Customs' property records (1) did not include all property items on hand, (2) included lost or disposed property items, (3) included property with erroneous or unsupported values, and (4) did not include all costs related to developing software in-house, which can be worth millions of dollars.

Customs has taken steps towards resolving long-standing problems in its property records and is planning additional efforts. For instance, as part of Customs' Office of Information Management Fiscal Year 1993 Project Plan, Customs plans to determine the costs for all existing software that had been developed in-house and develop procedures to account for these costs for all ongoing activities.

Revenue

Customs relies to a great extent on importers/brokers to voluntarily report and assess the amount of duties, taxes, and fees owed on imported merchandise. We reviewed Customs' revenue processes from the time merchandise arrived at U.S. borders until it was entered into U.S. commerce for consumption. We found no significant internal controls to ensure that merchandise entering the United States was identified and the proper duty assessed. Due to vast quantities of import activity and a poor internal control environment, we could not reasonably test whether dutiable merchandise that entered the United States was identified and the proper duty assessed.

Based on our tests of individual revenue transactions, such as duties, taxes, and fees owed, and the collection and classification of amounts paid, we concluded that the reported \$20.2 billion of total revenues approximates revenues collected from importers who voluntarily reported and paid amounts owed. However, because of the potential for goods to enter and not be identified, we cannot give any assurance that the reported \$20.2 billion represents all revenues which Customs should have collected for fiscal year 1992.

Also, Customs is the initial source of information for international trade statistics on imports used in monitoring and formulating trade policy. Thus, to the extent that Customs' information may be in error, trade statistics could also be misstated. While Customs recognizes these weaknesses and has established a project to improve importer compliance and target inspections for trade enforcement purposes, it will take a significant effort to adequately address the broad scope of problems in this area.

Drawbacks

Customs makes refunds to claimants for 99 percent of duties paid, when the related imported merchandise is subsequently exported or destroyed. These refunds are known as drawbacks. Of the \$775 million Customs reported as refunds and drawbacks expense, \$496 million were drawback payments Customs made during fiscal year 1992.

We found serious control weaknesses at all stages of the drawback process. Customs did not (1) adequately assess the validity of a drawback claim and track the amount of drawback paid against an import entry, (2) establish sufficient review procedures to ensure that a claim was accurate, (3) ensure that required bonds were adequate, and (4) ensure

that only authorized claimants received accelerated² drawback payments. These weaknesses create an environment where the federal government could lose millions of dollars.

As a result of Customs not having internal controls to prevent and detect duplicate or excessive drawback claims and the large volume of import documents associated with drawbacks, detailed testing was impractical. Customs reported 53,000 drawback claims in fiscal year 1992. Each claim may be associated with a number of separate entries. For example, one of the drawback claims in our limited sample had 957 associated entry summary documents. Because we were unable to test whether drawback payments made in fiscal year 1992 were valid and did not exceed 99 percent of the original duties paid, we cannot give assurance that the reported \$496 million represented valid claims.

Customs did not have an automated system that (1) links drawback payments to entry summaries and (2) maintains information about a claimant's filing history. The inadequate systems and control weaknesses discussed above increase Customs' vulnerability to lost federal funds. Although Customs had plans to revise the drawback and revenue systems, the drawback revisions were given a low priority. Until these weaknesses are corrected, the potential for fraudulent and other invalid payments occurring will continue.

Accounts Payable

Customs had no assurance that reported accounts payable of \$73 million as of September 30, 1992, included amounts actually owed. Customs' financial management systems were designed to record accounts payable only when both the goods or services and an invoice had been received. Therefore, liabilities were routinely not recorded for goods or services received until an invoice had been received and processed.

At year-end, Customs used special procedures to identify and record accounts payable for which goods and services had been delivered as of September 30, 1992, but the invoice had not yet been received. However, Customs could not provide information necessary for us to test whether all payables as of September 30, 1992 had been identified. Further, our limited testing of payables Customs identified found that the reported amount may be overstated due to amounts being recorded for goods and services not received in fiscal year 1992.

²Accelerated drawback payments are made to authorized claimants prior to Customs reviewing and verifying the validity and accuracy of the claim. Nonaccelerated claims are paid after Customs reviews them. Therefore, accelerated payments represent a greater risk than nonaccelerated payments.

Also, we found that Customs' monitoring controls over contracts were weak. Specifically, we found instances where Customs' contracting officers and technical representatives approved payments on contracts without verifying the validity of the charges by comparing them to the goods or services received. This lack of verification makes Customs vulnerable to fraudulent or overstated charges being submitted and paid without detection.

Intragovernmental Receivables and Reimbursable Services Retained

Improper accounting procedures and weak controls over interagency agreements³ resulted in Customs misstating amounts owed and reimbursed by other government agencies. We could not determine whether the reported \$72 million in intragovernmental receivables nor the related \$307 million in reported reimbursable services and user fees retained were correct or reported in the period the goods or services were provided to the other agencies.

We found that Customs did not (1) follow its own guidelines for recording interagency agreements, (2) maintain records to support amounts reimbursed by other agencies, (3) properly record and report its available budgetary resources⁴ with respect to interagency agreements, and (4) bill and collect amounts owed from other agencies based on delivered goods or services.

Customs recognized that it had problems accounting for interagency agreements and took steps to correct them. Customs hired an accounting firm to perform a detailed review of certain interagency agreements to determine if amounts owed were appropriate based on what portion of the goods or services called for in the agreement had been provided. This review resulted in a \$96 million downward adjustment to the intragovernmental receivables and reimbursable services retained, leaving reported balances of \$72 million and \$307 million, respectively. However, Customs could not identify how much of the \$96 million pertained to fiscal year 1992, and the accounting firm agreed that a portion of the adjustment was attributable to prior years. Thus, the reported balance for

³Interagency agreements provide a mechanism for an agency needing supplies or services to obtain them from another agency (the servicing agency). Generally, the requesting agency reimburses the servicing agency for the cost of providing the goods and/or services.

⁴OMB apportions the amount of budgetary authority available for interagency agreements at the beginning of each fiscal year based on an estimate of the total value of agreements in which Customs will participate. Upon signing an agreement (as the servicing agency) Customs has budgetary resources available for obligations needed to fulfill the agreement. Certain budgetary resources that remain unobligated at year-end will be carried over to the next year.

reimbursable services and user fees retained is likely to be understated to the extent that it was reduced in fiscal year 1992 for amounts that related to earlier years.

In addition, overstatement of certain amounts owed by other agencies to Customs resulted in Customs reporting inflated unobligated budget resources. These amounts carry forward into future years and appear as budget authority available to cover future spending by Customs. Consequently, Customs' improper budgetary accounting for these interagency agreements caused amounts reported to its program managers, OMB, and others as available budget resources to be incorrect.

Unliquidated Obligations

Under federal accounting requirements, obligations are initially recorded based on a contract or other formal order for the acquisition of goods and services. During the course of the year, obligations are to be reduced (liquidated) upon receipt of the goods or services ordered. At this point, budget authority is said to be expended. When budget authority is expended, the related obligation is liquidated and the appropriation is charged with the actual costs of items received.⁵

Customs did not ensure that (1) obligation balances were reduced for the cost of goods and services received, (2) obligations incurred reflected reasonable estimates of spending levels, and (3) unneeded obligations were deobligated in a timely manner. We also found that obligations were often misclassified in Customs' accounting records. Customs' failure to record expended appropriations or deobligate funds in a timely manner misstated Customs' funding needs. Consequently, Customs managers and other decisionmakers were not provided with accurate information. In addition, it eliminated the potential for these funds to be reprogrammed within its appropriations.

Customs' reported unliquidated obligations of \$361 million were approximately 25 percent of its fiscal year 1992 appropriation.⁶ Of the 102 unliquidated obligation balances we reviewed, approximately 42 percent, or \$83 million of the total value of the sample, should have been deobligated or expended. In addition, Customs could not provide support for 17 unliquidated obligation balances totaling \$7.3 million.

⁵Obligations remain available for expenditure until the related goods and/or services have been received.

⁶This includes Customs' general and special funds which can be used to fund its operations.

An indication of Customs' failure to promptly expend funds upon receipt of goods or services was further corroborated when Customs identified over \$70 million of unrecorded accounts payable in conducting its year-end procedures. The scope of our work on unliquidated obligations, as in accounts payable, was limited due to the lack of underlying support needed to determine that accounts payable were properly stated. Therefore, we could not affirm that the reported balance was properly stated.

FMFIA

Customs did not disclose the overall severity of its internal control and accounting system weaknesses in its report to Treasury on its conformance with FMFIA objectives. Without adequate disclosure, users of the FMFIA report will not be aware of the extent of Customs' weaknesses and the efforts needed to correct them. We found material weaknesses that Customs either did not include or did not adequately disclose in its fiscal year 1992 FMFIA report. For example, while Customs reported that its accounting system cannot properly age and estimate collectibility of accounts receivable, it did not disclose that its systems contain incomplete and inaccurate receivables information. Also, Customs reported that the interface between its accounting system and detailed property subsidiary records is inadequate and inconsistent but did not disclose the extent of the weaknesses in controls to ensure that information maintained in these records was accurate.

In addition, some previously identified material weaknesses that Customs reported as corrected, including accrual accounting for liabilities and accountability over seized currency, still existed because Customs did not ensure that corrective actions were effective. These weaknesses seriously eroded Customs' ability to safeguard, manage, and control its import revenues and operating expenditures.

Chief Financial Officer's Role

Management of the Customs Service is one of 17 program areas identified by us as being at high risk to waste, fraud, abuse and mismanagement.⁷ For years Customs did not have a management structure that included a Chief Financial Officer (CFO) with the necessary credentials nor authority of the sort now provided by the CFO Act. The absence of an effective CFO structure in Customs resulted in (1) automated data processing (ADP) systems that were developed with little or no consideration given to

⁷Managing the Customs Service (GAO/HR-93-14, December 1992).

reporting financial information and (2) in many instances, no policies or procedures designed to ensure that reported information was reliable.

Over the last 2 years, since the passage of the CFO Act, Customs has put in place a CFO structure and given the CFO the authority and responsibility necessary to begin to correct many of the problems identified in our audit. However, the depth and number of the problems found is such that it will take a concerted effort and sustained commitment by Customs' CFO and senior management to correct them. In this same light, the success of Customs' ongoing ADP system modernization efforts, and particularly its Automated Commercial System (ACS) redesign effort, will be critical to improving Customs' financial management systems and internal control structure. It will take the combined impact of the CFO structure and successful implementation of its system modernization efforts to enable Customs to produce useful information on its operations that decisionmakers, such as the Congress and the agency's senior management, can rely on.

Objectives, Scope, and Methodology

Management is responsible for

- preparing annual financial statements in conformity with applicable accounting principles,
- establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of FMFIA are met, and
- complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the Principal Statements are reliable (free of material misstatements and presented fairly in conformity with applicable accounting principles) and (2) relevant internal controls are in place and operating effectively. We are also responsible for testing compliance with selected provisions of laws and regulations and for performing limited procedures with respect to certain other information appearing in the annual financial statements.

In order to fulfill these responsibilities, we attempted to

- examine, on a test basis, evidence supporting the amounts and disclosures in the Principal Statements;
- assess the accounting principles used and significant estimates made by management;

-
- consider compliance with the process required by FMFIA for evaluating and reporting on internal control and accounting systems;
 - evaluate the overall presentation of the Principal Statements;
 - evaluate and test relevant internal controls which encompassed the following areas:
 - cash receipts and disbursements,
 - treasury funds,
 - accounts receivable,
 - accounts payable,
 - seized assets,
 - property, equipment, and inventory, and
 - budget; and
 - test compliance with selected provisions of the following laws and regulations:
 - Antideficiency Act,
 - Chief Financial Officers Act of 1990 (Public Law 101-576),
 - Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255),
 - National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510),
 - Fair Labor Standards Act of 1938,
 - Civil Service Retirement Act of 1930,
 - Civil Service Reform Act of 1978 (Public Law 95-454),
 - Federal Employees' Compensation Act,
 - Federal Employees' Group Life Insurance Act of 1980 (Public Law 96-427),
 - Federal Employees' Health Benefits Act of 1959 (Public Law 86-382),
 - Prompt Payment Act (Public Law 97-177),
 - Federal Acquisition Regulations,
 - Title 19, United States Code, and
 - Title 19, Code of Federal Regulations.

As previously noted, we were unable to obtain reasonable assurance about whether the Principal Statements were reliable (free of material misstatement and presented fairly in conformity with applicable accounting principles) because Customs' financial systems and processes were inadequate, its internal control structure was ineffective, and Customs lacked reliable financial information. Also, we did not evaluate all internal controls relevant to operating objectives as broadly defined in FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our work to accounting and other controls to achieve the objectives in our opinion on internal controls.

Except for the limitations on the scope of our work described above, our work was done in accordance with generally accepted government auditing standards and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

A handwritten signature in black ink that reads "Charles A. Bowsher". The signature is written in a cursive, flowing style.

Charles A. Bowsher
Comptroller General
of the United States

May 28, 1993

Financial Statements

Overview of Financial Entity

LETTER FROM THE COMMISSIONER

In the last 200 years, the mission of the U.S. Customs Service has expanded from a focus on collection of revenue to today's role as the Nation's primary border enforcement agency responsible for enforcing laws and regulations governing international traffic and trade. Customs provides a broad spectrum of commercial, enforcement, and inspection services to the American public. Every year, Customs processes hundreds of millions of passengers, millions of shipments of merchandise (valued at over \$500 billion), carriers, and vehicles, in a swift, efficient manner, while at the same time inhibiting the influx of contraband materials, pirated copies of protected merchandise, and articles dangerous to the general public. In addition, Customs acts to prevent the shipping abroad of dangerous and hazardous materials, weapons, and high technology where prohibited by law. The enforcement role of Customs in the economy and in the areas of national health and welfare has continued to grow.

The challenges we face in the near future are great. In the last decade, world economic growth and the increased interdependence of the global economy have accelerated trade and rapidly increased our workloads. The risks of prohibited goods entering our shores undetected are growing, while trafficking in illicit narcotics and associated money laundering activities continue as a major concern. In addition to these mission challenges, however, another major concern is the integrity and accuracy of the financial systems involved in administering our programs and the adequacy of the procedures in place to prevent fraud, waste, or mismanagement of public funds. The Chief Financial Officer's (CFO) Act of 1990 places new emphasis on government-wide efforts to promote better financial management and maximize the effective use of limited resources. Our actions to implement CFO requirements have added impetus to the far-ranging financial management improvements begun at Customs in the last several years.

I have instituted an integrated planning process at the Customs Service to measure our successes and chart our future. The preparation of the current

year CFO Report has presented an opportunity to take stock of how well we are safeguarding and accounting for the resources provided to implement our programs. The report provides an overview of our goals and functions as well as a clear statement of how we are using program resources. As required by the CFO reporting process, special emphasis has been placed on presentation of performance indicators which relate our achievements to the resources expended.

The report also points to significant improvement in our cash management and funds control processes, in our accounting and reporting of revenues, and in the reconciliation of Customs collections and deposits. Improved cost information has become available through a new payroll system. This information will be enhanced through implementation of a cost accounting system being developed in FY 1993. This year, Customs implemented a new core financial system and will be integrating ancillary systems with it as part of the ongoing development of Customs Asset Information Management System. Customs is also beginning the redesign and enhancement of the financial aspects of its commercial and revenue systems (the Automated Commercial System). We have greatly expanded the scope and intensity of efforts to improve management and internal controls within the agency. Taken together, these initiatives are resulting in coherent, comprehensive, and effective procedures to fully utilize and account for Customs resources. All of these efforts are in keeping with what I perceive to be the ultimate goal of the CFO Act.

I am proud of Customs accomplishments in carrying out its mission of trade enforcement, trade administration, and narcotics enforcement. I am also proud of our efforts to create an atmosphere of improved financial management and I believe our Annual CFO Report is an excellent vehicle to communicate our continued progress in both areas.



Michael H. Lane
Acting Commissioner
U.S. Customs Service

INTRODUCTION

IMPLEMENTING THE CFO ACT OF 1990

The Chief Financial Officers (CFO) Act of 1990 represents the most far-reaching financial legislation in nearly 40 years. Customs is one of the pilot agencies for financial statement preparation and audit by the U.S. General Accounting Office (GAO). Customs has fully realized the need for greater management attention to financial management and recognized current problems, which we have begun to address. The financial statements are intended to be of value to users in making economic, social, and political decisions and in assessing our accountability.

In recognition of the need to be held accountable to our customers and stakeholders and the requirements of the CFO Act of 1990, we have prepared comprehensive financial statements with footnotes for FY 1992. The statements have then been audited by GAO. In preparing the formats and footnote content of the financial statements, professional guidance was obtained from a variety of sources. Further clarification on financial statement presentation is expected as the Federal Accounting Standards Advisory Board (FASAB) addresses issues unique to the Federal Government.

The Government Accounting Standards Board, Concepts Statement Number 1, states that "Governmental accountability is based on the belief that the taxpayer has a right to know, a right to receive openly declared facts that may lead to public debate by taxpayers and their elected representatives" (paragraph 56). Accountability includes a requirement to render an account or explain ones actions to someone else who has the authority to assess performance and to make judgement and take action.

The impact of the CFO review and financial statement preparation process on Customs goes beyond the finance function. Customs has begun to look carefully at the underlying financial support structure throughout its organization. Using CFO audit findings to compliment already existing cost-benefit analyses, Customs is now beginning to integrate its financial management decisions with decisions concerning its operations.

CUSTOMS OVERVIEW

CUSTOMS PROFILE

The U.S. Customs Service is formally charged with the collection and protection of the revenue and with enforcement of "more than 600 laws for 60 agencies." Its primary responsibility, however, is more clearly understood as enforcing the laws governing the flow of merchandise or commerce across the borders of the United States. In doing this, the U.S. Customs Service plays a key role in enforcing the provisions of two major government-wide programs: the U.S. Trade Program and the U.S. Narcotics Enforcement Program. Customs effectiveness, therefore, is often viewed in terms of its effectiveness in contributing to the success of these two larger programs.

Trade Enforcement and Administration

The Trade Program is made up of both import and export trade efforts. On the import side, U.S. policy on trade, and Customs role in it, evolved from use of a tariff for revenue or protectionist purposes, to a role of complex trade enforcement. At one time revenues produced by tariffs provided about 90 percent of all federal receipts. Today, these revenues account for less than two percent. As a result, the main focus of Customs efforts in this mission area have changed from revenue collection to trade enforcement.

Today's trade program is a product of complex international trade negotiations. Customs role in carrying out U.S. import trade policy is primarily that of enforcing compliance with trade policy requirements. Most of these requirements have to do with protection of the public, labor,

and domestic industry as expressed in trade legislation.

Customs primary role in the U.S. import trade program is mandated in the Tariff Act of 1930 as amended. Customs responsibilities include enforcing intellectual property rights, tariff/monetary controls on imports, numerical provisions on imports, admissibility provisions, e.g., marking, labeling and other admissibility requirements, and providing accurate statistics (import and export) to be used in monitoring and formulating trade policy.

By enforcing these provisions, Customs serves as an implementing agent of U.S. trade policy and contributes to the objectives of protecting U.S. industry, agriculture and labor from unfair competition, protecting the American public from the entrance of harmful products into the marketplace, and providing adequate statistical data to assist in the monitoring and formulation of future trade policy.

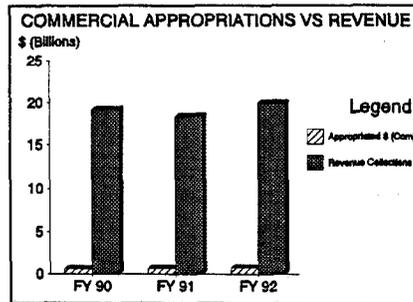
One of the major challenges for Customs in the 1990's is to achieve an effective trade enforcement strategy. Predatory and unfair trade practices of foreign competition have put domestic companies in an unfair competitive position. In response, Customs has established a new trade enforcement strategy which includes a servicewide trade enforcement vision, identifying national trade enforcement priorities. Agreed upon priorities are needed to combat potential abuse of trade agreements such as trans-shipment and marking violations; evasion of antidumping and countervailing duties; dangers to public health and safety; violation of quotas; import of articles produced by forced

labor, loss of revenue through improper valuation, and infringement of intellectual property rights. The new Customs strategy will improve targeting of such practices through development and refinement of automated systems to identify high-risk countries, transactions, and commodities, and will integrate trade information and statistics needed for analysis.

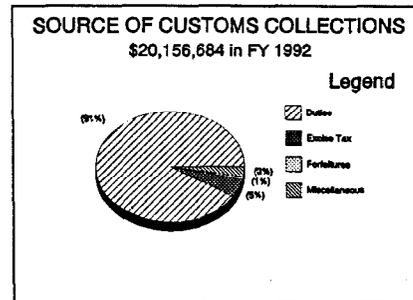
To better protect industry and the American public, Customs has launched a selectivity redesign project. By improving importer compliance, Customs will help ensure that domestic industries are given the opportunity to compete fairly in the marketplace. The selectivity redesign program seeks to measure and improve compliance with U.S. regulations on an industry-by-industry basis. When fully implemented, this system will help determine trade enforcement strategies.

In fulfilling its enforcement responsibilities, Customs also seeks to facilitate and minimize interference with the normal flow of legitimate trade. Finally, although revenue collection may no longer be Customs most important function, the Customs Service continues to collect, through the tariff and related fees, approximately \$20 billion of Federal revenue annually. In FY 1992, Customs was the second largest producer of revenue for the Federal Government. It collected approximately \$20 billion in duties, taxes, and fees while receiving only \$759 million in appropriated funds for merchandise processing and trade fraud prevention, often labeled "commercial activities." Revenue collected by Customs is more than 26 times these Salary and Expenses (S&E) Account funds received for its commercial activities.

The largest single source of Customs collections was Customs duties which totaled \$18.31 billion



in 1992. In addition, Customs collected \$1.082 billion in IRS taxes, \$166 million in forfeited currency and property, and \$597 million in other miscellaneous revenue.



On the export side of U. S. trade programs, Customs role can be viewed as two functions: export promotion and export control. The first has involved providing Customs expertise to the Office of the U.S. Trade Representative regarding foreign customs barriers to export market penetration. On the export control side, Customs is involved along with other agencies in implementing controls over certain exports to protect national security, further foreign policy, or prevent excessive drain of scarce materials.

Narcotics Enforcement

In the early 1900's, narcotics control fell under the general trade category of admissibility or non-admissibility of a prohibited controlled substance. A totally separate program has evolved due to the complexity of modern day drug usage problems.

The current federal strategy emphasizes six major elements: international cooperation, community law enforcement, interdiction and disruption of traffickers' efforts, education and prevention, detoxification and treatment, and research.

Customs primary role in the overall Federal strategy centers around the strategy elements of interdiction and disruption of traffickers' efforts and increased international cooperation. Customs is also involved in the training of foreign nationals as a part of the education element.

As the nation's primary border enforcement agency, Customs plays a major part in the attempt to prevent illegal drugs from entering the country. Customs seeks to do this by careful and selective inspection of imported merchandise, passengers, and carriers, as well as through major interdiction efforts at our nation's borders, using highly technical means of detecting and intercepting smugglers via air, land, and sea routes.

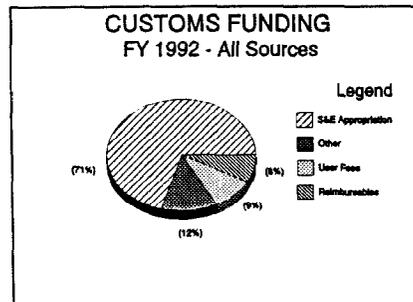
Customs has also taken on an extensive role in the investigation and disruption of smuggling activities through the conduct of undercover operations and through the disruption of the illegal cash flows and money laundering schemes that are the financial underpinning of the illegal drug business.

Customs works closely with other federal, state, and local narcotics agencies to reduce the availability of the supply of narcotics for distribution in the United States. Also, Customs seeks to disrupt and destroy major narcotic trafficking organizations to reduce the flow of narcotics from the point of origin.

Customs contribution to the training and education aspects of the national drug strategy revolve around our role as the primary international trainer of foreign Customs services. As the most technically advanced of the world's customs organizations, and the most aggressive in drug control, U.S. Customs is called upon to provide training to other customs services in inspection, control, and drug interdiction techniques.

Customs Funding and Resource Use

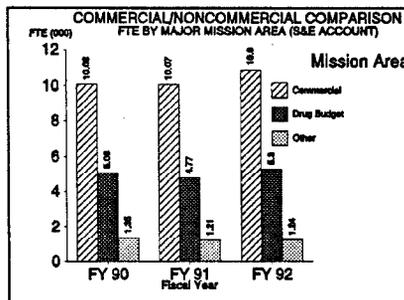
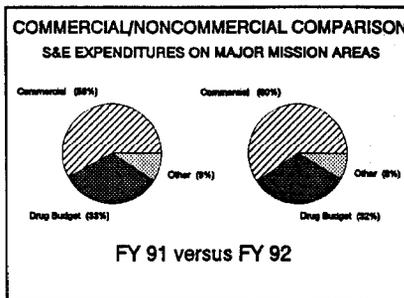
Since 1987, Customs has collected user fees from passengers, carriers, and goods entering the country and is permitted to use a portion of these fees to offset the cost of commercial operations.



Total funding from all sources for Customs operations was \$1.794 billion in FY 1992, as shown above, and is provided by six different

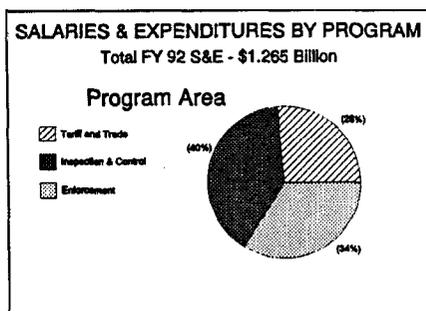
appropriations and reimbursements to these appropriations. The Salaries and Expenses Appropriation provided \$1.265 billion in FY 1992 for Customs staffing and for many of its operations. User fees constituted \$163.4 million and reimbursables approximately \$144 million of the total. Finally, Congress also provided \$221.6 million in other funds, primarily for activities associated with air and marine operations.

S&E funds were distributed across Customs two major mission areas in FY 1992 as follows. Approximately 60% of expenditures were spent on processing of merchandise entering the U.S. and trade enforcement (defined as commercial activities for budget purposes), while 32% went to drug enforcement. Eight percent was expended on non-commercial enforcement activities not related to drugs (for example, work to help other Federal or state agencies enforce laws in their area of authority). The commercial/non-commercial breakdown of S&E account funds in dollars is displayed below along with the distribution of FTE associated with this commercial/non-commercial allocation of S&E funds. The pattern in both cases is similar.



PROGRAM HIGHLIGHTS AND ANALYSIS OF PERFORMANCE IN MAJOR PROGRAM AREAS

Although Customs major mission areas are generally understood to be trade enforcement and narcotics interdiction, this mandate is carried out in a practical way by three major programs defined as Tariff and Trade, Inspection and Control, and Enforcement. Customs also has a separate appropriation for Operations and Maintenance. This area, involving operation and maintenance of aircraft, marine vessels, radar, and communications systems, is actually an integral part of Customs overall enforcement effort and is usually discussed in connection with the Enforcement Program. Since Customs budget is presented in terms of these major functional programs, the following program highlights will be in terms of these programs. An analysis in terms of these "budgetary" program areas reveals that 40% of S&E dollars are allocated to the Inspection and Control Program, 34% to the Enforcement Program, and 26% to the Tariff and Trade Program.

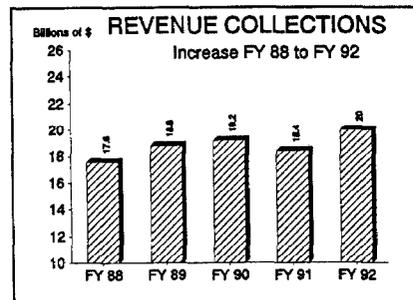


Tariff and Trade Program

Customs tariff and trade activities focus on two principal objectives: the expeditious administration and facilitation of trade, and the enforcement of numerous laws and regulations that affect U.S. trade and American industry. During this past year, Customs continued to confront not only growth in the number of commercial transactions, but also changing modes of transportation, more complex trade transactions, and an increasing number of administrative restrictions.

Trade Administration and Facilitation

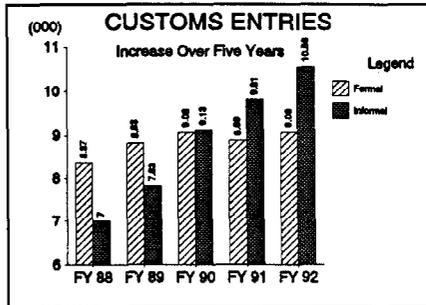
Customs trade administration responsibilities include: (1) collection of duties from imported merchandise; (2) ensuring uniformity in implementation of trade procedures; (3) accurate collection and reporting of import/export statistics; and (4) provision of efficient commercial services to the trade community.



During FY 1992, the Customs Service continued to process approximately \$500 billion worth of imported merchandise across U.S.

borders. Collection of duties, fees, and taxes produced a total of \$20.16 billion in revenue in FY 1992, and the trend in revenue has been up over the last five years.

This massive trade required the processing of tens of millions of transactions for entry of goods at the national seaports, airports, and land borders. The predominant measure of workload in the trade area is Customs entries filed for the admission of merchandise into the United States. An entry is made when the content and value of merchandise entering the country is legally defined and documented for purposes of determining admissibility and applicable duties or taxes. Informal entries are primarily distinguished from formal entries by the low dollar value of merchandise involved.



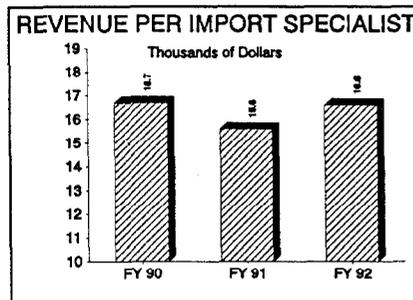
Another measure of the efficiency of Customs trade program operations is the return Customs is generating for each appropriated dollar spent on commercial operations, as measured by total revenue in relation to dollars appropriated for the commercial part of Customs mission (\$759 million in FY 1992). During the period 1988 to 1990, the return per dollar rose 19%, and the current rate of return is approximately 26 dollars for each appropriated budget dollar allocated to commercial operations.

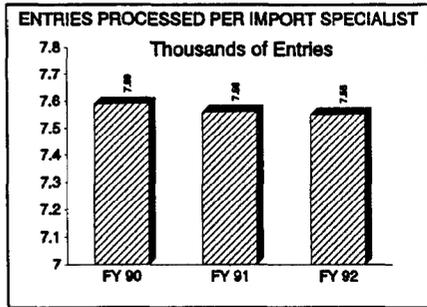
In order to improve the quality of service provided to the trade community, and to avoid becoming a "bottleneck" to the rapid movement of merchandise, Customs commercial systems have undergone continuous modernization and automation in recent years.

The Automated Commercial System (ACS) was developed to automate the hundreds of commercial processing tasks required for import entry and duty collection. An Automated Broker Interface (ABI) system now accounts for 90% of the Customs entries received from the trade community.

Customs has also developed automated manifest systems to expedite the transmission and review of cargo manifest information from both sea and air transport modes. "Line release," which is an automated system designed to track and expedite the release of high volume, low risk cargo previously reviewed by Customs, is also being used to expedite merchandise shipments.

With the increasing use of examination profiles and criteria, supported by automation, to selectively examine merchandise, Customs commercial programs are now designed to facilitate cargo and entry processing, while maintaining compliance with trade laws and regulations.





Customs has also been successfully pursuing the development of methods for the electronic transfer of information and funds, as well as a goal of achieving the paperless processing of as many of Customs transactions as possible.

Trade Enforcement

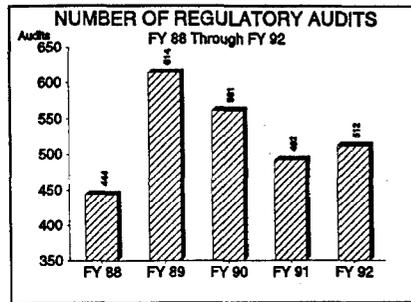
Trade enforcement is the focus of Customs trade administration activities. In administering various trade provisions, Customs is relied upon to enforce and detect violations of these provisions.

One of Customs primary trade enforcement responsibilities is the correct application and collection of tariffs and taxes on imported merchandise. The degree to which Customs properly carries out this function provides a measure of how well our protection of American industry is being carried out.

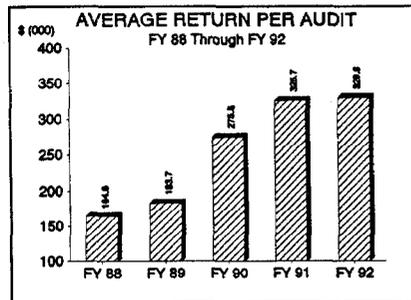
One Customs initiative to improve trade enforcement, while at the same time facilitating trade, is through the Regulatory Audit Program. This audit process focuses on examining the books and records of importing carriers, customhouse brokers, bonded warehouses, foreign trade zones, importers and other entities importing and exporting merchandise into and

out of the United States.

Auditors use financial records to ensure compliance with U.S. trade laws, regulations and international agreements. Since its establishment in 1973, the Office of Regulatory Audit has completed more than 11,000 audits with total duty and tax recoveries in excess of \$700 million.



On commercial fraud and national audits, auditors produce approximately \$15 for every \$1 in auditor costs. In addition to producing duties and taxes, audit work is now resulting in some of the largest penalties in the Customs Service's 200-year history. Major audits have resulted in company payments of \$34 million and \$18 million in individual cases.



Inspection and Control Program

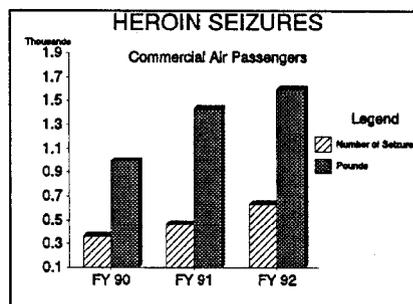
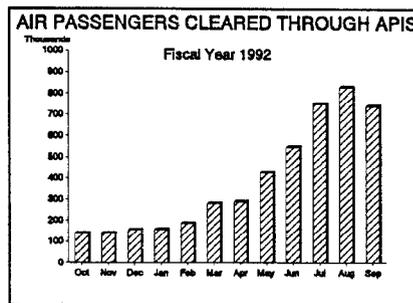
Customs inspectors are the first line of defense at our nation's ports in the drug war, in trade policy enforcement, and in consumer protection. In addition, they have become increasingly involved in export enforcement of licensed merchandise, illegal money movements, and the illegal export of stolen merchandise. In FY 1992, Customs inspectional work force cleared 47 million air, 392 million land, and 7 million sea passengers; processed nearly 21 million formal and informal entries; and cleared 10.3 million cargo containers, over 6 million trucks, 124 million passenger vehicles, 600,000 air carriers and 285,000 sea carriers.

Customs inspectors strive to handle this exceptional workload with increased efficiency, decreased intrusiveness, and enhanced enforcement effectiveness. They rely heavily on automation, new technology and selective techniques to meet these enforcement and facilitative needs. Customs is constantly developing and refining profiles of high-risk targets in order to focus on high-risk passengers and cargo. The remaining workload proceeds with minimal interference from Customs. We employ this philosophy of maximum efficiency and effectiveness - and minimum intrusiveness - in all our operational areas: passenger administration, cargo enforcement and control, narcotics and contraband enforcement, canine enforcement, and outbound enforcement.

Passenger Administration

In the passenger environment, this philosophy of maximum efficiency and effectiveness with minimal intrusion is embodied in the "Master Plan of the 1990's" concept. Due to a selective approach to passenger administration, Customs experienced no significant delays at our major airports last year and accomplished this without

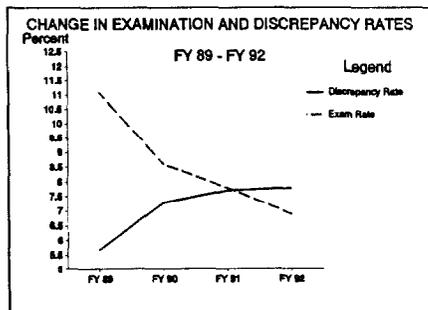
compromising enforcement responsibilities. The Master Plan has enabled Customs to handle peak passenger arrival periods more smoothly. The Advance Passenger Information System (APIS) also helps minimize passenger queues, while at the same time contributing to Customs enforcement efforts. APIS allows airlines to provide pre-arrival passenger information to Customs for prescreening purposes, providing more time to target high-risk passengers. Currently, 20% of air and 27% of sea passengers are screened through APIS. The charts illustrate the increase in passengers cleared through APIS and the results of Customs inspections of commercial air passengers.



Another boost to Customs facilitative efforts in the passenger environment is the Customs and Trade Act of 1990. It authorizes Customs to hire inspectors from surplus user fee revenues. In FY 92, 171 inspectors were hired to improve service at the nation's airports, and approximately \$2 million was allocated for part-time inspectors to support airport operations during peak arrival periods. These revenues also permit continued funding for 290 inspectors hired in FY 91. In addition to personnel, the Act permits Customs to use these funds to increase the application of technology at our airports.

Cargo Enforcement and Control

Customs philosophy of maximum effectiveness and minimum intrusiveness is evident most clearly in our cargo environment. Cargo Selectivity has heightened our ability to detect fraud, protect revenue, and facilitate trade. We are able to examine fewer entries and detect more discrepancies (marking, quota, and narcotics violations). During FY 92, 8 million entries were processed through Cargo Selectivity. Of those entries, only 6.9% were examined, and of those entries examined, 7.8% were found to have discrepancies.



Selectivity is rendered useless if the effectiveness

of the criteria used is not constantly evaluated. CFAST, the Cargo Facilitation and Selectivity Targetor, is a tool used to evaluate criteria effectiveness, determine the expected impact of new criteria, and create statistical reports on all discrepancies. In response to system changes, CFAST was revised in FY 92. In addition, Customs developed a new system, the Commercial Fraud Targetor, which analyzes discrepancies in order to prioritize examinations. As this system matures, it will improve our examination discrepancy ratio.

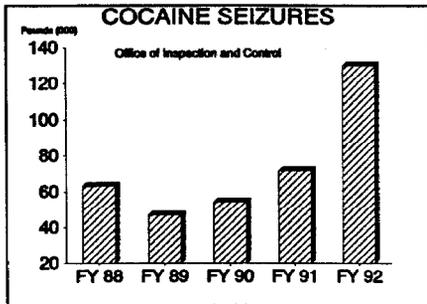
In the air and sea environment, Customs is relying more heavily now on the Automated Manifest System (AMS). Through AMS, carriers are able to transmit manifest information electronically to Customs, usually prior to carrier arrival. Today, 65% of all inbound ocean bills of lading are processed through Sea AMS. Due to extensive marketing efforts, Air AMS now includes 24 participants at 12 airports, and we have received letters of intent from six additional carriers. This increased from four participants in FY 1990 and ten participants in FY 1991.

Due to an agreement negotiated with the U.S. Postal Service, mail processing efficiency has increased tremendously. Customs was able to reduce parcel processing locations from 126 to 21. The Automated Mail Entry Writing System (MEWS) is now installed at 16 of those locations, representing automation of 99% of all dutiable mail entries. MEWS reduces protests and processing time and improves internal controls.

Narcotics and Contraband Interdiction

In FY 92, inspectors and canine enforcement officers seized 130,255 pounds of cocaine; 221,494 pounds of marijuana; 1,976 pounds of heroin; and 3,166 pounds of hashish. They also

made inbound and outbound currency seizures totalling \$81,346,409.

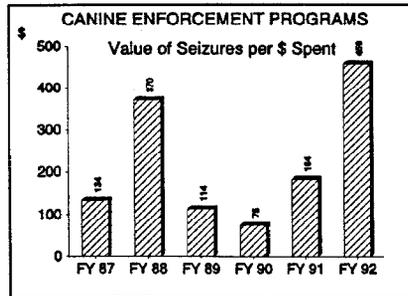


Targeting methods, such as the Container Cargo Targeting Information System, which identifies high-risk containers for examination, have greatly enhanced our narcotics enforcement abilities. In addition, we have initiated the development of a national narcotics targeting strategy which will maximize our resources by combining all merchandise data and intelligence into a single system.

Canine Enforcement Officer Program

Customs Canine Program is over 20 years old and is recognized as the finest training program of its type in the world. It is based on the use of dogs to detect narcotics smuggled into the country in cargo, conveyances, baggage and on passengers. This program is extremely effective and speeds up the processing of cargo and passengers.

Customs now has an authorized level of 446 teams, and over the years, the Canine Enforcement Training Center has trained thousands of teams for state, local, and foreign governments. In FY 92, the Canine Program, through "cold hits" and inspector referrals, made



5,530 seizures. Seizure results included: 109,950 pounds of cocaine; 161,351 pounds of marijuana; 168 pounds of heroin; and 2,749 pounds of hashish. In addition, \$12.8 million in currency was seized. The teams returned approximately \$459 for every dollar spent.

Export Control

Finally, Customs seeks to deter and intercept the illegal exportation of currency, technology, munitions items and other embargoed merchandise which are intended for export in violation of U.S. policies and law. Customs inspectional efforts focus on the exportation of proceeds from the illegal drug trade and, more recently, on stolen goods. Key areas affecting national security are also a high priority. These include illegal exports and/or diversions of missile technology, nuclear nonproliferation, chemical and biological warfare, and technological data transfer. Our efforts have resulted in: 862 currency seizures totalling \$42.4 million; 689 seizures of high technology and munitions items valued at \$52.6 million; 45 seizures and 24 arrests for violations of chemical precursors and essential chemicals export laws; and recovery of over 1,000 stolen vehicles.

Inspection and Control Issues and Problems

The Office of Inspection and Control is working diligently to develop better criteria for evaluating the effectiveness of its various programs. By the end of FY 93, all program managers will have identified the key elements needed to assess their programs. The availability of some or all of the information in a useful format will be an issue for each program. This will require an assessment of existing data collection mechanisms to determine if changes, additions, or deletions are required. Then data integration requirements will be identified, wherever possible, so that information can be collected and presented in an automated format.

An assessment of the Office of Inspection and Control's effectiveness in the enforcement arena will require more than data. Unlike private industry and some federal agency operations, Customs and other enforcement agencies are usually dealing with estimates of threat, or indirect measurements to infer the level of threat. Because of this, changes in individual performance indicators without analysis can be misleading. A decrease in cocaine seizures in one area, for example, could be the direct result of a deliberate attempt by a cartel to drive the price up and not a reduced level of effectiveness; or a decrease in inspector commercial textile seizures could be a result of a change in commercial import barriers.

Enforcement Program

The Customs Enforcement Program encompasses a wide range of activities and initiatives focused in four functional areas:

- o Investigations of all violations of Customs and related laws and regulations, both domestic and foreign. Fraud, financial, smuggling, and

strategic investigations are primary foci of Customs enforcement activity.

- o Interdiction to deter and detect prohibited entry of contraband or other Customs or related violations through land, sea, and air operations.

- o Enforcement support, including research and development and communications management. The R&D and Communications functions within the Office of Enforcement support not only that office but other offices within Customs as well.

- o Intelligence support including the collection, analysis, and dissemination of strategic and tactical intelligence data for use by the operational elements of the Customs Service.

The broad strategies for the Enforcement Program are:

- (1) To increase intelligence capacity, inter-agency cooperation, undercover operations, and applications of technology to investigative and interdiction programs.

- (2) To assure comprehensive, information-based, integrated and coordinated investigative and interdiction programs, utilizing intelligence, formal case development, undercover operations, and a multi-disciplinary team approach.

- (3) To monitor and evaluate program performance by office/location in terms of results, goals, and objectives versus resources expended. Consequent decisions about the distribution of people and assets take into consideration performance analyses, threat analyses, and geographic distinctions.

Investigative Programs

Investigative Programs consist primarily of four

areas: financial, fraud, strategic, and smuggling investigations. The recent implementation of the direct line reporting structure now results in centralized direction and guidance to field offices on both investigative and organizational matters.

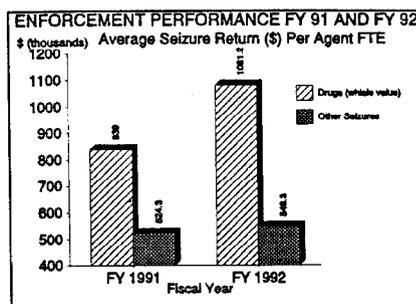
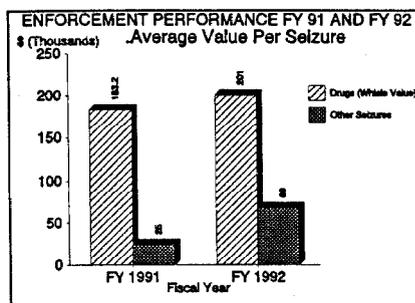
Numerous major investigations have been successfully completed and many are currently underway. These activities depend upon a well-trained staff, good working relationships with domestic and international counterparts, and the education and training of foreign counterparts and the trade community concerning Customs laws, regulations, and enforcement goals. Numerous undercover operations have been conducted in various program areas. These have been supported by training agents as undercover operatives, providing Headquarters review and approval of proposed undercover operations, and carefully monitoring the operations for performance.

Drug Smuggling Investigations

Specific strategies in this area are: (1) to work with other border agencies to increase the smuggler's risk at and between ports of entry on the Southwest land border and in the commercial environment (cargo and containers); (2) to conduct aggressive investigative efforts (including undercover operations) to target air and marine smuggling organizations; and (3) to train cross-designated agents in policy, legal, and operational issues relating to drug smuggling investigations under the cross-designation program.

In 1992, Customs continued to achieve impressive enforcement results around the country. Over 23,000 total cases were handled. Customs investigative and interdictory activities pursuant to the Title 21 cross-designation agreement have resulted in over 6,000 arrests, 2,000 criminal indictments, 3,500 convictions,

and 2,000 narcotics seizures. The current strategy and operational methodologies have resulted in record narcotics seizures.

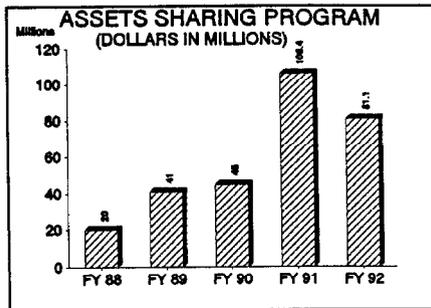


Financial Investigations

Customs seeks to disrupt the international illegal cash flow at its initial stage, destroying the financial infrastructure responsible for the movement of those funds, and effectively reducing the dollar amount available for global laundering and investment. Recent action directed toward this goal included expansion of Customs role in the development of money laundering control programs overseas through the Commissioner's International Money Laundering Initiative (CIMLI). This fosters a closer relationship with foreign counterparts,

and increased participation in international forums which have significant impact on the development of money laundering control programs throughout the world.

The dollar value of money laundering seizures peaked in 1990 due to several factors: (1) a \$135 million seizure of stolen United Kingdom Treasury Bonds which were subsequently returned to British authorities; (2) the extraordinarily high number of large seizures in 1990; (3) Customs decision in 1991 to de-emphasize "pick up" operations in order to focus on more quality arrests; and (4) successful law enforcement efforts regarding traditional banking institutions which caused a shift by criminals from cash to wire operations.



Customs Asset Sharing Program continues to flourish. From its inception in 1986 through 1992, Customs shared over \$300 million resulting from currency and hard asset seizures with 424 local law enforcement agencies in 45 states, and since 1988, with eight foreign governments. The majority of these assets came from seized monetary instruments.

Fraud Investigations

Customs recently developed a national fraud enforcement strategy, which identifies, as one of

its major objectives, the necessity and effectiveness of district fraud teams and a multi-disciplinary approach to fraud enforcement.

One area in which Customs has been operating in a multi-disciplinary mode is Jump Teams. These joint Enforcement/Commercial Operations teams were initiated in July 1990 to provide on-the-job experience and training in international business and trade operations, as well as in the workings of Customs foreign offices and their missions. The goal is to identify and prevent trans-shipments of textiles, confirm country production capacity, and facilitate and expedite the clearance of legitimate product.

Customs continues to focus investigative efforts toward cases with either significant or national impact. It has taken the lead in investigating violations relating to counterfeit and substandard aircraft parts. Also, Customs was instrumental in the formation of the Interagency Working Group on Product Substitution Fraud which dealt with the critical issue of substandard fasteners.

To do its job, Customs has increased the application of sophisticated investigative methods. For example, fraud investigations utilize the new Title III authority to intercept telephonic transmissions of facsimile machine data. Also, money laundering statutes have been utilized in a number of significant fraud cases. The first convictions ever obtained under Customs fraud-related RICO counts were obtained in New Orleans.

Customs continues to expand the use of money laundering statutes in the conduct of fraud investigations. Under these statutes, real estate and personal property, as well as cash "proceeds" of illegal activities, can be seized.

The investigation of hazardous and toxic waste imports and exports have been identified as a priority investigative area. Customs first criminal conviction in this area was in FY 1991 for violations relating to the importation of hazardous waste from Mexico.

Strategic Investigations

On August 2 and 9, 1990, President Bush issued Executive Orders prohibiting transactions with Iraq and Kuwait. Customs responsibility was to enforce the President's orders by blocking all unauthorized exports to those countries. In two months, Customs had effected more than 23 seizures of merchandise destined for Iraq and over 100 destined for Kuwait, for a total merchandise value of \$8.2 million. Customs efforts were highly effective in supporting the war effort and enhancing national security. Customs is still aggressively following up on arms smuggling cases generated as a result of the Gulf War, with many high profile arrests and seizures.

Customs has had good success in its working relationships with foreign counterpart services and interagency groups as well as domestic agencies. It continues to expand such relationships to realize better coordination of export enforcement. Customs has also provided training in export enforcement to Eastern European customs services and other interested agencies.

Due to the great demand for the Office of Enforcement's highly successful Biological/Chemical Weapons Manual (a manual which provides detailed investigative guidance for cases involving the illegal export of biological/chemical weapons), a second printing was completed for wide distribution throughout U.S. and foreign enforcement agencies. Moreover, the Federal Law Enforcement

Training Center is now creating a new special agent training program based on the manual.

Operation Exodus undercover operations are now being given a higher priority in view of their high success rate and their increased case acceptance by U.S. Attorneys. Also, improved relationships with the Office of Defense Trade Controls and the Defense Technology Security Agency have facilitated the procurement of export licenses for undercover operations.

At the beginning of FY 1992, Customs developed and issued a new policy which will facilitate the procurement of "flash" weapons and military equipment from the military services.

Aviation Program

Customs Aviation Program disrupts and disables the air transportation system used to deliver contraband, especially cocaine, to the U.S. In 1992, Customs increased the number of seizures and arrests, decreased the airborne drug smuggling threat, and established an unprecedented cooperative air interdiction program with the Government of Mexico.

Customs comprehensive strategy for the 1990's is based on the National Drug Control Strategy and built on past successes of the Aviation Program. Objectives and initiatives are designed to directly impact drug smuggling and transit in countries along our southern border.

The number of arrests and seizures have gone up during the last several years, but the majority now come from support activities (investigative and surveillance) rather than pure interdiction actions. The reason for this is that interdiction performance has dramatically altered air smuggling during the last several years; Customs has realized a significant

increase in the probability of detecting air smuggling attempts, and a consequent decrease in the airborne drug smuggling threat to U.S. borders. Although smugglers now look for entry access other than through the air, the Aviation Program remains a powerful deterrent to the resurgence of air smuggling overflights.

Marine Program

Customs also seeks to reduce the importation of drugs across our coastal borders through the diversion and disruption of maritime smuggling routes and patterns. To accomplish this, Customs implemented a revised strategy which included increasing fully integrated Air/Marine interdiction efforts; replacing unsuitable craft with seized, exchange sale, and purchased vessels; and reallocating resources taking into consideration the marine smuggling threat, a comprehensive cost effective approach, and the level of seizures and arrests.

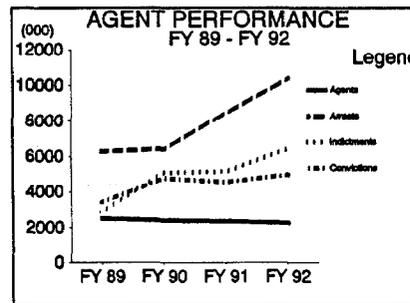
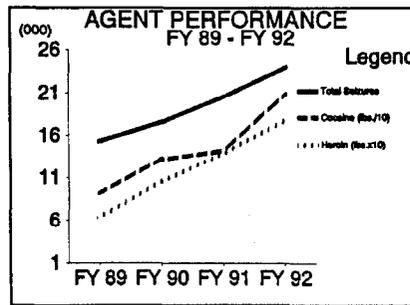
The Customs Enforcement Performance Program

During 1991, the Office of Enforcement developed a valuable tool which will enable it to better assess accomplishments and more effectively allocate resources. The "Customs Enforcement Performance Program" measures performance by using a number of indicators:

- o significant impact cases
- o arrests
- o indictments
- o convictions
- o seizures

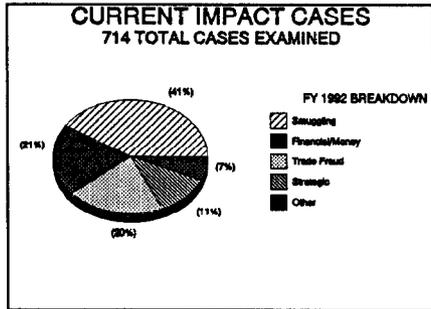
The results portrayed by these indicators are viewed in relation to investigative hours expended by agents in each office and are compared with Servicewide total results and

investigative agent hours expended by all offices. Quality factors are also taken into account in the analysis of performance, including the investigative process and techniques, significant impact cases, and deterrence.



A recent review of significant impact cases revealed that, in general, these cases concern major drug traffickers, cartel families, money laundering by major traffickers and prominent citizens, nuclear or chemical weapons exports, or major commodities/major trading partner fraud. The significant cases were distributed across major investigative programs as follows: 40.8% drug smuggling; 20.6% financial/money;

20.3% trade fraud; 11.5% strategic (exports), and 6.8% other.



\$1,122 million or approximately 41 percent of the total assets of Customs. Custodial receivables of approximately \$828 million primarily represent receivables relating to duties (\$699 million or 84 percent). Overall, custodial assets represent those assets that will be distributed to Treasury, state, local and other federal agencies and other governments.

Operating assets account for approximately \$1,593 million or 59 percent of the total assets of Customs. Operating assets consist primarily of fund balances with Treasury and cash (approximately \$687 million or 25 percent of total assets) and property, plant and equipment (approximately \$709 million or 28 percent of total assets).

FINANCIAL HIGHLIGHTS AND ANALYSIS OF FINANCIAL PERFORMANCE

During 1992 Customs collected \$20.16 billion as a custodian for other federal agencies and governments. Duties accounted for 91 percent and excise taxes 5 percent of these revenues, respectively. Of this revenue, 99 percent was returned to the Treasury, state, local, and other federal agencies and other governments.

Total operating expenses were approximately \$1,736 million. Personnel compensation and benefits totalled approximately \$1,060 million or 61 percent of the total operating expenses. Approximately \$16 million of unfunded annual leave costs were included in the personnel compensation and benefits expense. Contractual service expenses were approximately \$261 million or 15.0 percent of total operating expenses.

Custodial assets account for approximately

Financial Highlights (in thousands)

Custodial revenue collected	\$20,156,684
Allocation of custodial revenue collected	\$20,037,142
Total operating expenses	\$ 1,736,325
Total personnel compensations and benefits expenses	\$ 1,060,294
Personnel compensation as a percent of total operating expenses	61 %
Total invested capital (inventories, property, plant and equipment)	\$ 769,809
Total custodial future funding requirements	\$ 34,444
Total operating future funding requirements	\$ 108,695

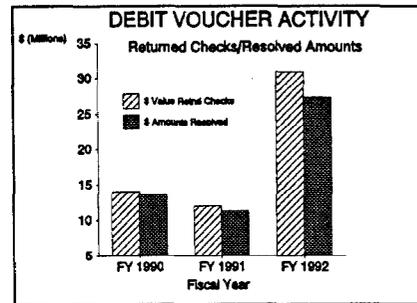
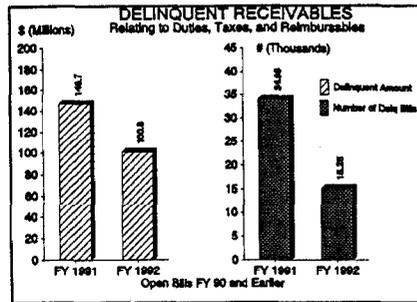
Analysis of Financial Performance

In FY 1992, Customs efforts in financial management related to the aggressive collection of accounts receivable, implementation of a new payroll system, reduction of interest payments, resolution of outstanding travel advances, improved reconciliation capabilities, and enhancement of controls over property and its related systems.

Improved Management of Delinquent Debt

Customs was able to reduce the delinquent debt (debt over 90 days) related to duties, excise taxes, reimbursable and miscellaneous receivables in FY 1992. Increased management emphasis was placed on the collection of delinquent debt in FY 1991. A Debt Collection Unit was formally established, an interim automated system developed to assist in the identification and collection of delinquent debt, and procedures were established to resolve debt with efforts focusing on direct contact with the debtor and surety collection efforts. The following chart highlights the progress Customs has made in decreasing the amount of delinquent debt (by \$45.9 million) and the number of delinquent bills (by 18,815) from FY 1991 to FY 1992.

Customs has also enhanced its Debit Voucher System to improve accountability and collection of receivables resulting from checks returned from banking institutions because of non-sufficient funds, closed accounts, stop payments and a variety of other reasons. As a result Customs has been able to progressively increase its rate of collection in recent years.

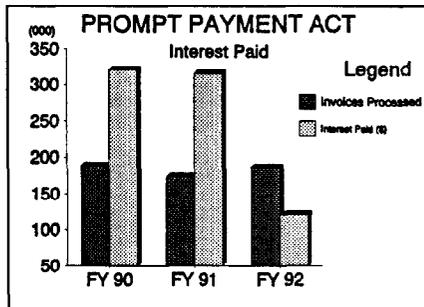


New Payroll System Implemented

During FY 1992 Customs employed an average of 20,021 individuals. In April, 1992, Customs converted to the Department of Agriculture Payroll System from the Department of the Treasury Payroll System. Major benefits of the new system include an automated billing system for collecting salary overpayments, an ability to input cost data, and a more accurate, paperless processing and approval of time cards. Customs has also expanded its usage of direct deposit transactions from 79 percent in FY 1991 to 84 percent in FY 1992.

Reducing Late Payment Interest

Customs met both the Treasury and Office of Management and Budget performance standards relating to the late payment of invoices in FY 1992. Treasury's established acceptable frequency rate for incurring prompt payment interest is two percent. The Office of Management and Budget has issued a standard that 98 percent of all payments to vendors be made timely. In FY 1992 Customs had a frequency rating of 1.95 percent and a processing rate of 98 percent. This compares with FY 1991 rates of 2.54 percent and 97 percent. This improvement occurred during a period when the number of invoices increased by 7 percent from 174,501 in FY 1991 to 186,756 in 1992.



Outstanding Travel Advances

Customs implemented procedures defining the policy for collecting outstanding travel advances from employees using salary offsets. As a result of this policy and increased monitoring, outstanding advances decreased from \$942 thousand in FY 1991 to \$615 thousand in FY 1992. Customs also implemented a pilot program in the Northeast Region that allows

employees to use their government Diners Club Card in automatic teller machines. This decreases the use of Federal monies to fund travel advances. Program implementation is expected Customswide by 1994.

**Major Improvements in Collection
Deposit Reconciliation**

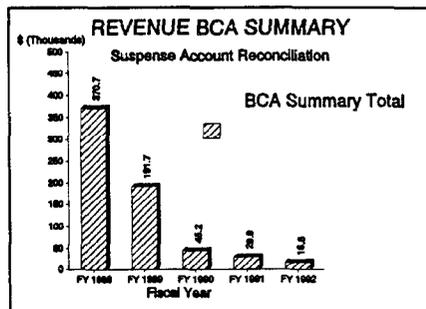
In FY 1989 Customs had within its own systems substantial unreconciled differences between collections and deposits, and unreconciled differences with the Treasury. After systems enhancements and reconciliation efforts were completed, Customs was able to identify and correct the internal imbalances. Customs has since implemented a new Cashlink system that provides an interface between Customs and the Treasury, Financial Management Service mainframe computers. This interface compares Customs collection records to the deposits reported to the Treasury by financial institutions, and produces a daily listing of deposit exceptions. Prior to Cashlink, Customs was not able to begin the reconciliation process for 6 - 8 weeks because of the lack of deposit documentation. The deposit exception reconciliation between Treasury and Customs is now accomplished in days instead of months.

Improved Performance in Suspense Fund Reconciliations

Customs has been able to reduce the amount in its Revenue Budget Clearing Account (BCA) in recent years in a decreasing period of time due to increased reconciliation efforts and the implementation of the Cashlink system. The Revenue BCA is a suspense fund where Customs deposits amounts collected when the amount can not be readily identified with a specific collection entry. The Office of Management and Budget has identified performance criteria for reconciling suspense

accounts at clearing 90% of the transactions within 90 days of their initial posting. While

- Report on Budget Execution to the Year end Closing Statement (annually).



Customs has not yet met this measure, the chart above highlights the progress that has been made.

Similar to the Revenue BCA suspense account, Customs also has a suspense account containing undistributed differences resulting from disbursements originating in the Federal automated disbursing system not being processed within three months. OMB requires clearing 90 percent of the transactions within 90 days for this account. Customs currently has a backlog in this account due to staffing, procedural deficiencies, and the training required at year end for the implementation of a new accounting system. Customs has implemented steps to reduce the backlog by focusing the existing staff on current processing, providing additional temporary staff to resolve the backlog, and initiating a study to resolve the procedural deficiencies.

As the chart shows, reconciliations efforts have concentrated on the recent years. Differences from fiscal years 1988 and 1989 are being resolved on a time available basis.

Reconciled Property and Accounting Systems

Disbursement Reconciliations

In FY 1992 Customs reconciled the \$606 million of equipment contained in its property management systems to the general ledger. In prior years Customs had significant imbalances between the property and accounting systems. To resolve the imbalances, Customs implemented an aggressive reconciliation of FY 1990, 1991, and 1992 property records. Monthly reconciliation procedures were developed and implemented. The capitalization threshold for property was modified to comply with existing General Accounting Office standards. Numerous policy directives and procedure manuals were developed to provide greatly improved accountability, manageability and inventory standards. A quality assurance risk model was developed to identify high risk areas requiring review and assistance. The annual physical inventory procedures were streamlined resulting in a successful

Customs was successful in routinely meeting a number of critical reconciliation measures identified by the Office of Management and Budget in FY 1992. These reconciliations include:

- Statement of Differences Disbursing Office Transactions (monthly).
- Statement of Differences Deposit Transactions (monthly).
- Undisbursed Trial Balance to Customs General Ledger (monthly).
- Report of Unavailable Receipt Transactions to Customs General Ledger (monthly).
- Report on Budget Execution to the Report on Obligations (quarterly).

reconciliation of perpetual and physical property records during the FY 1992 annual inventory. Lastly, a Central Data Entry Unit was established that creates temporary property records for accountable property when ordered, and processes all disposal records. These efforts have resulted in accurate property records containing proper dollar valuations and a general ledger that agrees with the detail records of the property systems.

Financial Statements

The financial statements presented as part of this total package present the financial position, results of operations and cash flows of the U. S. Customs Service for the year ended September 30, 1992, pursuant to the requirements of the Chief Financial Officer's Act of 1990. It should be noted that the financial statements differ from the financial reports used to monitor and control budgetary resources. Also, the financial statements should be reviewed with the realization that they are for a sovereign entity, that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

FINANCIAL MANAGEMENT SYSTEMS INITIATIVES

Current Status of Financial Management Systems

Customs has begun a broad based project to improve the quality and effectiveness of financial management, accounting, and budgeting systems, practices, and procedures. The project is known as AIMS, the Asset Information Management System and encompasses an integrated financial management system. It will provide Customs with a financial system that will resolve Federal Managers' Financial Integrity Act (FMFIA) deficiencies and meet Joint Financial Management Improvement Program (JFMIP) Core Requirements. It will also modernize and streamline Customs administrative systems and procedures.

The objective of the AIMS project is two-fold:

- (1) To implement a modern financial system which corrects current deficiencies and is compliant with federal financial systems requirements, and
- (2) To integrate and upgrade ancillary administrative systems.

The first goal was met in Phase I of the AIMS project. A new core financial system was implemented on October 1, 1992. The second goal will be met in Phase II of the project which is now underway in FY 1993. Highlights of AIMS and other Customs major systems projects this fiscal year are presented in the following paragraphs.

Implementation of the new core financial system. After analyzing the options, Customs determined that off-the-shelf software could best meet Customs need for a financial system. The Federal Financial System (FFS), developed by American Management Systems, was selected.

- This supports Customs, and the Government's, goal of using off-the-shelf software to the extent possible.
- FFS is fully compliant with JFMIP Core Financial System Requirements and GAO accounting requirements.
- FFS provides system generated external reports to meet Treasury and OMB requirements.
- FFS modernizes Customs processing by providing on-line edit and update.
- Customs worked with the vendor to configure FFS and develop interfaces to ancillary systems.

Improved reports capabilities. As part of the AIMS project, Customs recognized the need to place additional focus on reports from the new system.

- Customs is developing an easy to use, automated reports system.
- This will provide users with reliable and timely information from the system.
- Customs implemented essential reports on October 1, 1992.
- Full automated and advanced capabilities are now being developed.

Cost accounting. In conjunction with the AIMS project, Customs will be working toward a cost accounting system, which it currently does not have.

- This will resolve a current, and long standing, FMFIA deficiency.
- As part of the new Department of Agriculture payroll system, a labor distribution system was custom developed and implemented in April 1992.
- Off-the-shelf software (the FFS Project Cost Accounting System) will be used for project cost accounting. It provides project budgeting and costing, plus tracks reimbursable agreements, receivables, and obligations at the detail level.
- Customs requirements for cost accumulation and distribution are now being defined.
- The cost accumulation and distribution requirements will be completed this fiscal year and a determination made as to how to meet the requirements.

New payroll system. As part of a Treasury-wide initiative, Customs converted to the Department of Agriculture payroll system in April 1992.

- This supports the government's goal of consolidating systems using cross servicing.
- Customs developed an automated system where timekeepers enter data which is edited and then later interfaced to Agriculture.
- Requests for security access to the new system were automated by enhancing the existing AIMS Security Module, beginning the process of standardizing and integrating access requests for administrative systems into one system.

Annual financial statements. Customs is one of the pilot agencies undergoing financial statement audits for FY 1992.

- Requirements identified by Customs audit team and outside auditors were addressed to the extent possible when the new core system was implemented October 1, 1992.
- Customs intends to meet all requirements in the second phase of the AIMS project.
- When final report requirements are published by OMB, they will be integrated into FFS by the vendor, and Customs will implement the upgrade when it is available.

Revenue systems improvement. Customs will improve the automated revenue programs and systems by redesigning and enhancing the financial aspects of the Automated Commercial System (ACS).

- This will bring revenue systems into compliance with GAO, CFO and JFMIP requirements.
- This will provide better control over Customs collections.
- This will provide for better measures of performance in the collections and receivables areas.
- The project was initiated in the last quarter of FY 1992 and is in its initial stages.

Plans for Financial Management Systems Improvements

Customs financial systems plans are in two major areas. These are: (1) financial systems and (2) revenue systems.

Financial Systems. Customs prior core financial system, the Customs Accounting and Management Information System (CAMIS) was purchased off-the-shelf, customized and installed in 1980. In recent years, it became apparent that the system had several shortcomings, including not meeting the JFMIP requirements and Customs increasing requirements. In addition, through FMFIA reviews and GAO audits, Customs financial systems were found to have significant deficiencies.

Customs determined that CAMIS should be replaced due to the problems mentioned above and the fact it was nearing the end of its system life cycle. As a result of this decision, the Asset Information Management System (AIMS) project was begun. The goals of AIMS were described above.

The first goal of the AIMS project was met in Phase I of the AIMS project. A new core financial system was implemented on October 1, 1992. Customs used off-the-shelf software for the core system and made only essential changes to the vendor package. The system operates in Customs current computer operational environment, in addition to being upgradeable to the DB2 relational database technology should Customs decide to do so. Customs existing ancillary systems were interfaced into the core system, and only essential changes to the systems were made.

The second goal will be met in Phase II of the AIMS project. Customs plans to integrate the ancillary systems into the core system to update the core on-line, reduce redundant files, and minimize reconciliation efforts. In addition, Customs plans to expand and enhance all ancillary systems to add increased functionality, streamline systems and procedures, move towards a more paperless environment, and provide timely and reliable information useful in effective resource management.

In both phases of the AIMS project, Customs intends to use off-the-shelf software where appropriate. Customs also intends to work with other Treasury agencies to share system related work efforts. The possibility of taking the lead in developing Treasury-wide systems will be evaluated.

Revenue Systems. The Automated Commercial System (ACS) was developed with operational needs as the major concern and at a time when Customs financial programs were regionalized. Most of the financial related aspects of ACS are among the older parts of the system. ACS does not fully support the JFMIP requirements or the audit requirements of the CFO legislation. A recent GAO report of financial management in Customs points out that the financial systems do not adequately account for and control resources.

Customs determined there is a need to improve the automated revenue programs and systems due to the problems mentioned above. Customs intends to redesign and enhance the financial aspects of ACS through a long term effort.

The goals of the revenue systems improvement project are:

- (1) provide better control over Customs collections,
- (2) bring revenue systems into compliance with GAO, CFO and JFMIP requirements,
and
- (3) take advantage of state of the art technology to maximize systems efficiency.

The project will be a joint effort between the Office of Information Management's Office of Automated Commercial Systems and the Office of Management's AIMS Division.

Software will be developed following standard life cycle development procedures. This includes: analysis, user requirements, functional requirements, system design, programming, system testing, documentation and training.

The project was initiated in the last quarter of FY 1992 and is in its initial stages. It will be a key element in an overall redesign planned for the Automated Commercial System.

FMFIA PROGRAM SUMMARY

Description of Customs FMFIA Program

Under the Federal Managers' Financial Integrity Act, a government-wide system for reviewing management controls and conformance with Comptroller General standards was implemented through OMB Circulars A-123 and A-127. More recently, the CFO Act re-emphasized the requirement, originally stated in A-127, that Federal agencies develop and maintain integrated agency accounting and financial management systems, including financial reporting and internal controls.

Customs is continually working to improve the agency's Management Controls Program. Regular evaluations of controls at both Headquarters and regional levels are being conducted in accordance with OMB guidelines. Coordination of both Section 2 (program controls) and Section 4 (accounting systems) of the FMFIA is vested in the new Management Controls Division, which is part of the Office of the Comptroller and the Office of Management.

Summary of FMFIA Accomplishments

- o Customs Management Controls Division was established in 1990 to oversee an effective management control system.
- o Customs has been aggressively identifying and pursuing completion of material weaknesses and actions to improve controls in Customs. It was reported in FY 1989 that Customs financial management system was not in conformance with the Comptroller General's standards. As a consequence, there has been a focus on correcting Customs problems with data integrity (accounting and cost information), and funds control and collection of accounts receivable.
- o Initiatives are underway to enhance extensive parts of the Automated Commercial System and to further develop the Asset Information Management System. The resulting improved systems will improve controls over accounting, cost information, and reconciliation activities.
- o Risk assessments and event cycle documentation for program areas were updated in FY 1990 and will be updated again in FY 1993.
- o Customs has initiated several efforts to standardize and improve regional management control review programs including an automated reporting and review system for compliance reviews. In addition, work is progressing to standardize critical checklists used by the regions to do these reviews.
- o A major effort was begun to produce management control "red flag" reports from existing records in Customs Automated Commercial Systems and to produce early

warning reports from financial and administrative systems. Some reports are in production and others are under development.

- o The status of actions and reviews scheduled in Management Control Plans and corrective actions for material deficiencies are now tracked on a monthly basis and reported through Treasury's Inventory, Tracking, and Closure System.
- o Aggressive followup has been instituted to ensure effectiveness of corrective actions. A validation process for correction of material deficiencies has been developed that identifies validation criteria, validation methodologies, and coordinates validation efforts of Customs offices.
- o Management control training has been revised and training efforts intensified. A management controls video is also nearing completion.
- o Customs has developed an official "Early Warning" system of reporting significant happenings to the Department through its Intelligence Operations Center.
- o Customs has begun a regular recurring program of reviews of regional FMFIA programs.
- o Customs has established an effective automated funds control system to prevent the possibility of spending violations and significantly improve internal controls over financial management.
- o Customs has implemented formal end-of-year operating procedures, and daily monitoring of the status of resources at the end of the year.
- o Customs has implemented the new on-line reconciliation procedures called CASHLINK which allows rapid reconciliation of all deposit issues.
- o Customs has enhanced its financial management organization in preparation for fully implementing the Chief Financial Officers Act by reorganizing its financial management organization, filling vacancies with highly qualified management and staff, developing plans to monitor improvements in financial areas on a monthly basis, establishing a permanent staff to implement a new core accounting system that will interface with other financial related systems, and providing staff and financial assistance to meet the requirements of the CFO Act.
- o Customs has acted to familiarize its managers with techniques for developing, selecting, and utilizing performance indicators in evaluating their programs, as required under the CFO Act.

Unresolved Deficiencies

High Risk Areas

Data Integrity: This area involves problems that have occurred due to the lack of effective General Ledger control, inability to reconcile accounts on a timely basis, and system inefficiencies.

Improvements in Customs financial systems including our funds control module, the introduction of a new electronic mechanism called CASH LINK for reconciliation of deposits, and the formal implementation of our new core financial system have effectively addressed General Ledger and reconciliation concerns. Corrective actions to improve controls over the Treasury Enforcement Communications System (TECS) II records have resolved another data integrity issue. A final corrective action involves development of a better cost attribution methodology for use by Customs managers. The new cost approach is scheduled to be ready by October 1993.

Collection of Receivables: There has been a need to improve collection/accounting systems for revenues on imports and to develop better financial systems for accounting and follow-up to collect receivables.

Corrective actions have been taken for all the specific deficiencies originally listed as part of this high risk area. This includes action to improve timeliness of deposits, expedite processing of protests, resolve debit vouchers received for bad checks, improve recording and follow-up action on mail entries, resolve delinquencies related to promissory notes, deal with undeposited collections reported on the Statement of Accountability (CASH LINK) and reconcile the Statement of Accountability, and significantly improve controls over serially numbered forms used in the collection process. Going beyond our original corrective action plan in this area, Customs has recently requested FY 1994 funds for the Customs Automated Revenue Accounting (CARA) redesign project, which would provide significant improvement in internal controls affecting revenue collection in ACS. Although this is an area which should continue to bear continuous scrutiny, it is also an area in which corrective action has significantly reduced our risks.

Controls over Obligated and Unobligated Balances for Customs Operations and Maintenance (O&M) Account: Customs has experienced problems in determining actual O&M account balances due to inadequacies in tracking obligations and expenditures associated with interagency agreements and related contracts.

Corrective actions to address these problems are underway. In the summer of 1992, Customs hired the accounting firm of KPMG Marwick to review the account balances of the air/marine program, and they have completed their review and issued a draft report with recommendations. Recommendations of Treasury's own study team will be coordinated with the Peat Marwick recommendations and corrective action will be implemented to improve the account's internal controls. The Inspector General will review results of both efforts.

Other Material Weaknesses

In FY 1992 Customs was able to eliminate problems with controls over collection documents, and was able to close several other deficiencies. Accounting and follow-up on duties and taxes for mail entries was improved through new mail entry and collection systems in ACS. New policies and procedures were finalized for better auditing and controls over Undercover Operations. Customs also formalized procedures for year-end accounting adjustments which will permit accrual accounting in accordance with GAO standards.

In addition to the material weaknesses which we have been addressing in our two high risk areas, Customs carried over into FY 1993 plans to correct weaknesses related to its inability to properly age accounts receivable for reporting purposes, to ensure correct and timely liquidation of entries, to better manage the allocation of expenditures for inspectors' overtime, and to reconcile property values recorded in both our property management and primary accounting systems. Corrective actions for the last two of these were subsequently completed.

There were four new material weaknesses or non-conformances listed in Customs 1992 FMFIA Annual Report. The most important reflects GAO concerns over the adequacy of Customs framework to assure that trade enforcement efforts are effective and efficient. Corrective action will involve implementation of Customs new Trade Enforcement Strategy. A second involves the need for improved compliance with existing controls over seized property, primarily narcotics, and adequate storage facilities for these items. The third (discussed as a high risk area above) relates to a need for improved tracking of obligations and expenditures associated with interagency agreements, permitting easier determination of correct balances for the Operations and Maintenance Account; and the fourth to the need for more timely adjustments of accounts receivable to reflect deferred tax payments and for timely billing of Harbor Maintenance Fees.

Blue Ribbon Panel Update

In FY 1992 Customs proceeded with implementation of an action plan to resolve concerns about agency management and integrity issues identified by the Blue Ribbon Panel which was appointed in June 1991. This effort has gone well. During this period, Customs launched a well coordinated effort to implement the Panel's recommendations. Each of the 51 recommendations in the Panel's report was studied thoroughly and acted upon in some way. Customs developed 13 action plans, with over 100 milestones, to ensure that the spirit and intent of the recommendations were properly carried out. This effort has resulted in significant and far-reaching reforms throughout the Customs Service. Customs is providing the Department with formal, semi-annual reports of progress on Blue Ribbon Panel implementation, as well as informal, ad hoc updates. Customs sees itself in a strong position to assure that the recommendations are fully implemented and that the problems found in one part of Customs will not recur elsewhere.

Financial Statements

Consolidated Statement of Financial Position

Department of the Treasury, United States Customs Service

Consolidated Statement of Financial Position

As of September 30, 1992

(Dollars in Thousands)

Custodial assets:	
Undistributed funds with Treasury (Note 6)	\$ 213,706
Receivables, net of uncollectible amounts of \$76,943 (Note 2)	827,895
Forfeited property and currency (Note 3)	74,257
Other (Note 4)	6,050
Seized property and currency (Note 5)	<u> -</u>
Total custodial assets to be distributed	1,121,908
Fund balance with Treasury - refunds and drawbacks (Note 6)	<u> 9</u>
Total custodial assets	<u>1,121,917</u>
Operating assets:	
Financial resources:	
Fund balances with Treasury and cash (Note 6)	687,005
Receivables from reimbursable services and user fees, net of uncollectible amounts of \$7,789 (Note 7)	44,493
Intragovernmental receivables	71,910
Non-financial resources:	
Advances and prepayments	19,828
Aircraft parts and materials	60,191
Property, plant and equipment (Note 8):	
Aircraft	349,322
Other	<u>360,296</u>
Total operating assets	<u>1,593,045</u>
Total assets	<u>\$2,714,962</u>

The accompanying notes to the consolidated financial statements
are an integral part of this statement.

Financial Statements

Custodial liabilities:	
Custodial assets to be distributed	\$1,121,908
Accrued refunds and drawbacks (Note 9)	34,443
Capital lease obligation	<u>1</u>
Total custodial liabilities	<u>1,156,352</u>
Custodial net position (Note 10):	
No-year appropriations	9
Future funding requirements	<u>(34,444)</u>
Total custodial net position	<u>(34,435)</u>
Total custodial liabilities and net position	<u>1,121,917</u>
Operating liabilities:	
Funded operating liabilities:	
Accounts payable	73,413
Accrued payroll and benefits (Note 11)	81,442
Intragovernmental liabilities	8,079
Other	<u>11,700</u>
Total funded operating liabilities	<u>174,634</u>
Unfunded operating liabilities:	
Accrued annual leave	67,839
Capital lease obligations (Note 12)	16,993
Accrued unemployment and workmen's compensation	<u>23,863</u>
Total unfunded operating liabilities	<u>108,695</u>
Total operating liabilities	<u>283,329</u>
Commitments and Contingencies (Note 13)	
Operating net position (Note 14):	
Authorized retained capital	238
Appropriated funds with Treasury:	
Unliquidated obligations	361,444
No-year and other appropriations	68,735
Reserve for advances and prepayments	7,726
Invested capital:	
Aircraft parts and materials	60,191
Property, plant and equipment	709,618
Cumulative results of operations	210,459
Future funding requirements	<u>(108,695)</u>
Total operating net position	<u>1,309,716</u>
Total operating liabilities and net position	<u>1,593,045</u>
Total liabilities and net position	<u>\$2,714,962</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statement of Operations and Changes in Operating Net Position

Department of the Treasury, United States Customs Service
Consolidated Statement of Operations and Changes in Operating Net Position
for the year ended September 30, 1992
(Dollars in Thousands)

Custodial activities:	
Revenues collected:	
Duties	\$18,311,802
Excise taxes	1,081,670
User fees	533,308
Forfeited property and currency	166,033
Fines and penalties	42,608
Interest and others	<u>21,263</u>
Total revenues collected	<u>20,156,684</u>
Allocations of revenues collected:	
Department of the Treasury	19,898,819
Department of Agriculture	40,891
State, local, other Federal agencies and other Governments	<u>97,432</u>
Total allocations of revenues collected	<u>20,037,142</u>
Net revenues collected	<u>119,542</u>
No-year appropriations expended for refunds and drawbacks	775,325
Refunds and drawbacks expense	<u>775,325</u>
	<u>-</u>
Net revenues collected and available to offset funded operating expenses	<u>119,542</u>
Operating activities:	
Financing sources:	
Appropriations expended for operations	1,335,156
Reimbursable services and user fees retained	<u>307,072</u>
Total financing sources	<u>1,642,228</u>
Operating expenses:	
Personnel compensation and benefits	1,060,294
Travel and transportation	50,677
Rent, communications and utilities	155,942
Printing and reproduction	5,250
Purchases of evidence and information	49,659
Contractual services	260,502
Repairs and maintenance	108,258
Interest and other	<u>45,743</u>
Total operating expenses	1,736,325
Less unfunded operating expenses	<u>15,793</u>
Total funded operating expenses	<u>1,720,532</u>
Excess of financing sources over funded operating expenses	41,238
Operating net position, as of October 1, 1991	1,237,912
Other changes in operating net position (Note 14)	<u>30,566</u>
Operating net position, as of September 30, 1992	<u>\$ 1,309,716</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Financial Statements

Consolidated Statement of Cash Flows

Department of the Treasury, United States Customs Service

Consolidated Statement of Cash Flows

for the year ended September 30, 1992

(Dollars in Thousands)

	<u>Custodial</u>	<u>Agency</u>
Cash flows from operating activities:		
Excess of financing sources over funded operating expenses	\$ -	\$ 41,238
Adjustments affecting cash flows from operating activities:		
Appropriations expensed	(775,325)	(1,355,564)
Decrease (increase) from custodial and operating receivables	(135,031)	28,331
Decrease (increase) in inventory of forfeited assets	17,295	-
Increase in inventories not held for sale	-	20,408
Decrease (increase) in advances and prepayments	(1,052)	13,972
Decrease in custodial assets to be distributed and funded liabilities	(2,090)	39,019
Other, net	-	<u>11,912</u>
Net cash used by operating activities	<u>(896,203)</u>	<u>(1,200,684)</u>
Cash flows from investing activities:		
Purchases of invested capital	-	<u>(204,772)</u>
Net cash used by investing activities	-	<u>(204,772)</u>
Cash flows from financing activities:		
Appropriations (current warrants)	742,298	1,456,409
Return of "M" Year funds to Treasury	-	(5,334)
Payments on capital lease obligations	-	<u>(10,754)</u>
Net cash provided by financing activities	<u>742,298</u>	<u>1,440,321</u>
Net increase (decrease) in cash and cash equivalents	(153,905)	34,865
Cash and cash equivalents, beginning of period	<u>367,620</u>	<u>652,140</u>
Cash and cash equivalents, end of period	<u>\$213,715</u>	<u>\$ 687,005</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Consolidated Statement of Reconciliation to Budget

Department of the Treasury, United States Customs Service

Consolidated Statement of Reconciliation to Budget

for the year ended September 30, 1992

(Dollars in Thousands)

Total funded operating expenses	\$1,720,532
Add:	
Allocation of revenues collected	178,361
Property, plant and equipment acquisition	178,574
Distribution to Treasury	49,198
Inventory purchases	26,198
Cash disbursements for mortgages, claims and refunds	2,755
Net reversals of prior year payables and additional current year payables	56,409
Less:	
Inventory used in operations	(20,408)
Distributions not requiring outlay:	
Property transferred to other Federal agencies and to state and local governments	(10,209)
Net adjustment to reimbursement revenue	(178,434)
Non-appropriation expenditures	<u>(7,325)</u>
Expended appropriations	1,995,651
Less reimbursements	<u>(111,642)</u>
Expended appropriations	<u>\$1,884,009</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS1. Summary of Significant Accounting Policies:Basis of Presentation

The Chief Financial Officers Act of 1990 (CFO Act) requires executive agencies of the Federal government to prepare and have audited financial statements and related footnotes for all agency activities and funds. The financial statements are prepared in conformity with applicable generally accepted accounting standards and principles for Federal entities, as well as Office of Management and Budget (OMB) Bulletin No. 93-02 which defines the form and content of financial statements of executive departments and agencies. These standards, principles and other guidance used to prepare such financial statements are a comprehensive basis of accounting other than generally accepted accounting principles.

The accompanying consolidated financial statements include the accounts of all funds under Customs' control or which Customs' activities impact, consisting of thirty-nine (39) custodial funds and eight (8) operating funds. All inter-fund balances and transactions have been eliminated. Certain modifications and variations to the principles and guidelines, described above, have been made to the accompanying financial statements in order to more clearly present the financial position and results of operations of Customs.

Reporting Entity:

The United States Customs Service (Customs), with headquarters in Washington, D.C., was created in 1789 and is now a part of the Department of the Treasury (Treasury). Customs is primarily responsible for administering the U.S. Trade Program and the U.S. Narcotics Enforcement Program. Customs' primary responsibilities include: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States; (2) assessing and collecting duties, excise taxes, fees and penalties due on imported and other goods and services; and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local and other Federal agencies and foreign countries.

Currently, Customs is operating second only to the Internal Revenue Service in the collection of revenues for the Federal government. Similar to other Federal agencies, funding for Customs' operations is provided principally through annual congressional appropriations.

Consolidated Financial Statements Presented

Substantially all of the revenues collected by Customs are remitted to the Treasury, U.S. Department of Agriculture, state and local agencies, other Federal agencies and other Governments (i.e., Puerto Rico, Virgin Islands) in accordance with the various laws and regulations governing the operations and activities of

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements Presented (continued)

Customs. These activities reflect the custodial/fiduciary responsibilities that Customs, as an agency of the Federal government, has been authorized by law to enforce.

The financing sources to cover the operating and other costs incurred from the activities described above are provided principally through congressional appropriations on an annual, multi-year, and a no-year basis. Accordingly, operating costs incurred and, therefore, recorded as expenses are offset by an equal amount of appropriated funds that are recorded as financing sources.

The form and content of the Consolidated Statement of Financial Position, as suggested by OMB Bulletin No. 93-02, has been adjusted to present custodial assets to be distributed (and an offsetting liability) for revenues collected or to be collected but not yet distributed to the various entities expected to receive these funds. Principally all of these revenues are not considered as financing sources (revenues) available for the operations of Customs.

To more accurately present the results of its principal activities (i.e. custodial/fiduciary responsibilities) and the funding of such, Customs has presented for 1992, a "Consolidated Statement of Operations and Changes in Operating Net Position". The form and content of the statement, as suggested by OMB Bulletin No. 93-02, has been modified to present custodial activities separately from the operating activities of Customs. The custodial activities represent the fiducial responsibilities of Customs in contrast to the operating activities where the financing sources are provided principally through congressional appropriations.

Revenue and Expense Recognition

Revenue generated from Customs' custodial activities is recognized when the cash is collected. The significant types of revenues collected, related expenses and a description of these include:

- Duties: amounts collected on imported goods;
- User fees: fees associated with services performed by Customs agents or other officials within port authority, for the harbor maintenance and other miscellaneous fee programs;
- Excise taxes: taxes collected for the Internal Revenue Service on imported distilled spirits and liquor;
- Fines and penalties: amounts collected for violations of law and regulations;

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue and Expense Recognition (continued)

- Forfeited currency and property: revenue collected from forfeited currency, sales and distributions of forfeited property, and payments in lieu of forfeiture as a result of Customs' criminal and other investigations; and,
- Refunds and drawbacks: refunds include overpayments, duplicate payments, etc., to importers, while drawbacks are payments to importers and other claimants for a portion of the initial duties and taxes collected on imported goods where the goods are subsequently exported to foreign markets.

Financing sources from appropriations expensed are recorded as revenue when the related cost is incurred and recorded as an expense. Revenues from reimbursable services and user fees to be retained (19 U.S.C. 58c.) are recorded as earned when the service is completed and are net of amounts deemed uncollectible.

Expenditures for operating costs are recorded as expenses when goods are received, inventory used, or the services are incurred.

Custodial Assets and Liabilities

Custodial assets consist principally of undistributed funds with Treasury, receivables, and forfeited property which are to be distributed primarily to the Treasury, other Federal agencies, state and local agencies and other governments. Because substantially all of the custodial assets are not considered financing sources (revenues) available to offset operating expenses of Customs, a corresponding liability is recorded and presented as "Custodial Assets to be Distributed" in the Consolidated Statement of Financial Position to reflect the custodial nature of Customs' activities.

Customs receives annual increases to its no-year appropriation balance with Treasury to fund refunds and drawbacks of duties and taxes paid during the fiscal year. Accrued refunds and drawbacks in excess of these appropriated funds are unfunded and are included as "future funding requirements" within Custodial Net Position.

The presentation of custodial assets, liabilities and net position in a separate, self-balancing set of accounts ensures that financial and non-financial resources of Customs present only those resources which will be consumed in current or future operating cycles while the custodial categories contain resources relating to Customs' custodial/fiduciary activities.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Undistributed Funds with Treasury

Undistributed funds with Treasury represents custodial monies, excluding forfeited currency, to be distributed to various Federal, state or local agencies. The monies held represent the timing differences between when the monies are received and when the distribution of the funds occurs.

Receivables

Receivables included as a component of custodial assets consist of duties, user fees, excise taxes, fines and penalties and interest which have been billed or accrued and remain uncollected as of September 30, 1992. These receivables are net of amounts deemed uncollectible which is judgmentally determined and considers past collection experience, write-off history, analyses of the types of receivables outstanding, and a detailed review of aged balances.

Forfeited Property and Currency

Forfeited property and currency are generated from the forfeiture of currency and other monetary instruments and real and personal property seized by Customs under authority granted to it by the Tariff and Trade Act of 1984 and the Anti-Drug Abuse Act of 1988. Forfeited property is recorded at estimated net realizable value based on historical sales experiences.

Proceeds from these activities, net of authorized administrative and enforcement expenses allowed by the Tariff and Trade Act and the Anti-Drug Abuse Act, amounts allocated to state, local and other federal agencies, the sum of \$15 million, unliquidated obligations and reserve for advances and prepayments at the end of each fiscal year, are recorded as custodial assets to be distributed for payment to the general fund of the Treasury. As of September 30, 1992, the remaining \$238 thousand balance that, by law, is not remitted, is considered as "Authorized Retained Capital", the net of which is presented as a separate component of operating net position in the Consolidated Statement of Financial Position.

Seized Property and Currency

Seized property and currency result principally from enforcement activities. These items are not considered a custodial asset until judicially or administratively forfeited and, accordingly, are not reflected as custodial assets in the Consolidated Statement of Financial Position.

Fund Balances with Treasury and Cash

Fund balances with Treasury are the amounts remaining as of fiscal year end within funds Customs receives an appropriation, and imprest fund balances. The fund balances with Treasury represents the amounts remaining but not yet spent.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash Equivalents

For the purpose of the Consolidated Statement of Cash Flows, cash includes: custodial undistributed funds with Treasury, a custodial fund balance with Treasury and operating fund balances with Treasury and cash.

Receivables from Reimbursable Services and User Fees

Receivables from reimbursable services and user fees represent amounts due from various parties for services performed which Customs, by law, has the right to bill for reimbursement of costs incurred.

Intragovernmental Receivables and Liabilities

Intragovernmental receivables and liabilities represent amounts due from or due to various other Federal agencies under contractual agreements or other arrangements for services or other activities performed for or by Customs. Customs has recorded a receivable from other Federal agencies totaling \$71.9 million for goods and services which had been provided through September 30, 1992. Customs has also recorded a payable to other Federal agencies totaling \$7.2 million for goods and services received.

Advances and Prepayments

Payments in advance of the receipt of services are recorded as prepaid charges and recognized as expenses when the related services are received. A reserve for advances and prepayments, a separate component of Customs' consolidated operating net position, is increased (credited) for the amount of appropriated funds spent, but not yet obligated, for these deferred charges. The deferred charges consist principally of advances to agents for use in conducting investigative operations. Upon incurrence of the related expenses and, therefore, the recording of an operating expense, the related reserve for advances and repayments amount is decreased and appropriations expended for operations, a financing source, is increased.

Aircraft Parts and Materials

Aircraft parts and materials are stated at replacement cost. As of September 30, 1992, aircraft parts and materials consist principally of material and supplies held for future consumption, with a replacement value of approximately \$60.2 million. Invested capital, a separate component of Customs' operating net position, is increased (credited) for an amount equivalent to the cost of the inventory with a corresponding decrease (debit) to Customs' appropriated funds. A valuation allowance is established, principally as a result of obsolescence, to reduce the carrying value of inventories to market with a corresponding direct charge to the related separate component of Customs' operating net position. When

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aircraft Parts and Materials (continued)

ultimately used in Customs' operations, an operating expense (reducing inventories) and a financing source (reducing invested capital) equal to the original cost of this inventory are recorded. Any related valuation allowance previously established is reversed with an offsetting credit to the related separate component of Customs' operating net position.

Property, Plant and Equipment

Purchased property, plant and equipment, transferred property from other Federal agencies, and forfeited property with a value of \$5,000 or greater is capitalized and recorded as an asset. The invested capital account is increased (credited) for an amount equivalent to the capitalized cost of the asset with a corresponding decrease (debit) to Customs' appropriated funds.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$5,000 for improving or rebuilding an existing asset that extends its useful life are capitalized.

Depreciation expense and amortization is not recorded because it does not provide meaningful information to the management of Customs and most other Federal agencies in determining capital expenditure needs.

Upon legal transfer of property, plant or equipment receiving approval for disposal, the asset is removed from the statement of financial position.

Funded and Unfunded Operating Liabilities

Funded operating liabilities are those liabilities incurred for which Congress has appropriated funds during the current or prior fiscal year. Unfunded operating liabilities are liabilities resulting from goods or services received in the current or prior periods in excess of available Congressional appropriated amounts. The liquidation of the unfunded liabilities are dependent on future Congressional appropriations. The expenses associated with these unfunded operating liabilities are recorded as operating expenses in the Consolidated Statement of Operations and Changes in Operating Net Position. The unfunded expenses are deducted from total operating expenses to arrive at total funded operating expenses.

Total unfunded operating liabilities in the Consolidated Statement of Financial Position agrees to the total of Future Funding Requirements presented as a separate component and as a reduction of Customs' operating net position.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accrued Annual Sick and Other Leave

Annual leave is accrued as an expense when earned. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future funding sources. The accrual is presented as a component of unfunded operating liabilities in the Consolidated Statement of Financial Position. The accrual is adjusted during the year for changes in compensation rates and reduced for the annual leave taken. Sick and other types of leave are expensed as taken and are not accrued when earned.

Retirement Plans

The majority of Customs' employees participate in the Civil Service Retirement System (CSRS), to which Customs makes matching contributions equal to seven percent (7%) of pay, or seven and a half percent (7.5%) for those personnel classified as law enforcement agents. Customs does not report CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans as the accounting for and reporting of such amounts is the responsibility of the Office of Personnel Management.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which Customs automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired after December 31, 1983, Customs also contributes the employer's matching share for Social Security.

Contributions of \$82 million were made for fiscal year 1992 related to these plans.

Appropriated Funds with Treasury

Appropriated funds with Treasury represents the amount of Customs' unexpended spending authority as of September 30, 1992, that is unliquidated or is unobligated and has not lapsed, been rescinded, or been withdrawn.

Consolidated Statement of Reconciliation to Budget

The consolidated statement of reconciliation to budget reconciles total funded operating expenses as reported in the accompanying Consolidated Statement of Operations and Changes in Net Operating Position with outlays as reported on Customs' "Report on Budget Execution" (SF-133) for the year ended September 30, 1992. Differences in the two amounts are due to dissimilarities in accrual accounting used to prepare the consolidated financial statements and budgetary accounting used in preparing the SF-133.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Comparative Presentation

This is the first year in which Customs' management prepared financial statements in accordance with the provisions of the CFO Act. Beginning in fiscal year 1993, comparative financial statements will be presented in order to provide a better understanding of and the significant trends in the financial position and results of operations of Customs.

2. Custodial Receivables:

Custodial receivables as of September 30, 1992, consist of the following (in thousands):

	<u>Federal</u>	<u>Non-Federal</u>	<u>Total</u>
Duties	\$1,801	\$ 748,400	\$ 750,201
User fees	-	54,515	54,515
Excise taxes	-	69,434	69,434
Fines and penalties	-	26,070	26,070
Other	-	<u>362</u>	<u>362</u>
	1,801	898,781	900,582
Less amounts deemed uncollectible	<u>-</u>	<u>72,687</u>	<u>72,687</u>
Receivables, net	<u>\$1,801</u>	<u>\$ 826,094</u>	<u>\$ 827,895</u>

The activity in the account for amounts deemed uncollectible for fiscal year 1992 is as follows (in thousands):

	<u>Federal</u>	<u>Non-Federal</u>	<u>Total</u>
Balance, October 1, 1991	\$ -	\$73,095	\$73,095
Decrease for amounts deemed uncollectible	<u>-</u>	<u>(408)</u>	<u>(408)</u>
Balance, September 30, 1992	<u>\$ -</u>	<u>\$72,687</u>	<u>\$72,687</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Custodial Receivables (continued):

An aging of custodial receivables net of amounts deemed uncollectible as of September 30, 1992 is as follows:

	Aged Period					Total
	≤ 90 days	91 days- 1 year	1-2 years	2-3 years	3+ years	
Duties	\$653,193	\$ 5,693	\$4,514	\$3,168	\$32,641	\$699,209
User fees	45,643	401	1,666	-	-	47,710
Excise taxes	55,677	819	49	4	270	56,819
Fines and penalties	3,754	20,041	-	-	-	23,795
Other	362	-	-	-	-	362
	<u>\$758,629</u>	<u>\$26,954</u>	<u>\$6,229</u>	<u>\$3,172</u>	<u>\$32,911</u>	<u>\$827,895</u>

Revenue generated from Customs' custodial activities is recognized when cash is collected. A receivable for fines and penalties is recorded when Customs has reached agreement with the violator as to the violation and the amount of the damages to be paid, where the Department of Justice has rendered a decision in favor of Customs and/or when the protest period has lapsed and Customs has the right to pursue legal remedies. During the year ended September 30, 1992, Customs assessed fines and penalties totalling approximately \$4.5 billion in approximately 55,200 cases. These assessed amounts are based on the guidelines established in the laws and regulations Customs is charged with enforcing. The laws and regulations also allow for negotiation or mitigation to a lower fine or penalty amount to settle the case. During the year ended September 30, 1992, approximately 57,500 cases were settled resulting in \$42.6 million of revenue. As of September 30, 1992, \$23.8 million was recorded as a custodial receivable, net, for fines and penalties.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Forfeited Property and Currency:

Forfeited property and currency as of September 30, 1992, consist of the following (in thousands):

	<u>Amount</u>
Currency and other monetary instruments	<u>\$63,272</u>
Property:	
General property	\$ 2,709
Real property	4,200
Vessels	934
Aircraft	1,410
Vehicles	<u>1,732</u>
	<u>\$10,985</u>
	<u>\$74,257</u>

As of September 30, 1992, approximately \$8.7 million or 79% of forfeited property was held by an outside contractor, with the remainder held by Customs.

The estimated value of destroyed forfeited property was approximately \$17.5 million for fiscal year 1992. This estimated value is determined by the management of Customs and the outside contractor. Property destroyed consisted primarily of drugs and drug paraphernalia, and general property, such as illegal weapons and counterfeit merchandise. It is Customs' policy to not value drugs and drug paraphernalia as they will not be released into commerce or resold.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Forfeited Property and Currency (continued):

Forfeited currency and other monetary instruments as of September 30, 1992, and an analysis of the changes for fiscal year 1992, are as follows (in thousands):

	Balance October 1, <u>1991</u>	<u>Forfeitures</u>	Transferred to State/Local <u>Federal or Foreign</u>	Retained for Fund <u>Operations</u>	Balance Sept. 30, <u>1992</u>
Currency and other monetary instruments	<u>\$94,667</u>	<u>\$120,519</u>	<u>\$78,327</u>	<u>\$74,152</u>	<u>\$62,707</u>

For purposes of this schedule, currency and other monetary instruments on hand at the beginning and end of the fiscal year consists of forfeited currency held for evidence or approved for future transfer to state, local and other federal agencies or foreign countries. Transfers represent forfeited currency physically transferred during the fiscal year.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Forfeited Property and Currency (continued):

Forfeited property as of September 30, 1992, and an analysis of the changes for fiscal year 1992, are as follows (in thousands):

	Balance		Forfeitures	Sales	Transferred to		Destroyed	Balance		
	October 1, 1991	September 30, 1992			State/Local	Federal or Foreign		September 30, 1992	September 30, 1992	
At Net Realizable Value										
			At Value Estimated by Customs/Contractor							
General Property	\$20,321	\$17,924	\$44,245	\$24,764	\$11,790	\$17,517	\$ 8,098	\$ 2,709		
Real Property	6,314	5,569	5,381	4,261	1,537	0	5,152	4,200		
Vessels	267	235	4,384	2,245	1,253	0	1,121	934		
Aircraft	617	544	2,623	1,507	756	0	904	1,410		
Vehicles	616	544	6,922	3,933	1,971	27	1,535	1,732		
	<u>\$28,135</u>	<u>\$24,816</u>	<u>\$63,555</u>	<u>\$36,710</u>	<u>\$17,307</u>	<u>\$17,544</u>	<u>\$16,810</u>	<u>\$10,985</u>		

	Sales		Transfers	
	At Estimated Value	At Net Realized Value	At Estimated Value	At Net Realized Value
General Property	\$24,764	\$ 3,498	\$11,790	\$2,412
Real Property	4,261	3,104	1,537	1,478
Vessels	2,245	1,480	1,253	1,175
Aircraft	1,507	1,210	756	1,186
Vehicles	3,933	2,557	1,971	2,346
	<u>\$36,710</u>	<u>\$11,849</u>	<u>\$17,307</u>	<u>\$8,597</u>

At the time of seizure, property is assigned an estimated value by Customs and/or the contractor. Many of these values are established by statute and are not intended to represent the amount expected to be received upon disposition. For statement purposes, the forfeited property is recorded at estimated net realizable value based on historical sales experience.

**DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

4. Custodial Assets - Other

Custodial assets - other as of September 30, 1992 consist of the following (in thousands):

	<u>Amount</u>
Instruments held in lieu of surety	\$3,398
Custodial Property (Note 8)	<u>2,652</u>
	<u>\$6,050</u>

5. Seized Property and Currency:

Seized property and currency as of September 30, 1992, consist of the following (in thousands):

	<u>Amount</u>
Currency and other monetary instruments	\$121,889
General property	168,268
Real property	93,969
Vessels	13,800
Aircraft	76,369
Vehicles	<u>14,496</u>
	<u>\$488,791</u>

Seized property and currency result principally from Customs' criminal investigations and passenger/cargo processing. These assets are not legally owned by Customs until judicially or administratively forfeited and, accordingly, are not reflected as custodial assets in the Statement of Financial Position. Customs has fiduciary responsibility for these assets upon seizure. Seized property, substantially all of which is managed and maintained under a contract with an unrelated entity, is disclosed at a value estimated by Customs' officials and its contractor.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seized Property and Currency (continued):

Seized property and currency as of September 30, 1992, and an analysis of the changes for fiscal year 1992, are as follows (dollars in thousands):

	Balance, October 1, <u>1991</u>	Additions	Deletions			Balance Sept. 30, <u>1992</u>
			Mitigations	On-Site	Other	
Currency and other monetary instruments	\$105,473	\$185,739	\$ 4,699	\$ 16,941	\$147,683	\$121,889
General property	234,378	188,041	30,398	181,403	42,350	168,268
Real property	20,197	81,572	300	388	7,112	93,969
Vessels	14,220	10,039	54	6,245	4,160	13,800
Aircraft	74,991	33,943	1,361	29,479	1,725	76,369
Vehicles	<u>11,080</u>	<u>43,111</u>	<u>22,802</u>	<u>9,793</u>	<u>7,100</u>	<u>14,496</u>
	<u>\$460,339</u>	<u>\$542,445</u>	<u>\$59,614</u>	<u>\$244,249</u>	<u>\$210,130</u>	<u>\$488,791</u>

The forfeited amount included in this schedule contains a \$26,056 million difference when compared to the Forfeited Property and Currency Schedule (Note 3). This difference is attributable to timing differences between the recording of operational activity and accounting activity. Procedures are being performed to reconcile Customs systems.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Funds with Treasury and Cash:

Funds with Treasury and cash as of September 30, 1992, consist of the following (in thousands):

	<u>Amount</u>
Custodial Assets:	
Undistributed funds	\$ 150,071
Other - suspense	<u>63,635</u>
Total undistributed funds with Treasury	<u>213,706</u>
Total fund balance with Treasury - refunds and drawbacks	<u>9</u>
Operating Assets/Agency Financial Resources:	
1992	97,235
1991	54,551
1990	18,434
1989	21,564
Multi-year	11,975
No-year	443,117
Merged-year	31,418
Other	3,926
Imprest cash balances	<u>4,785</u>
Total fund balances with Treasury and cash	<u>687,005</u>
Total funds with Treasury and cash	<u>\$ 900,720</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Receivables from Reimbursable Services and User Fees:

Receivables from reimbursable services and user fees as of September 30, 1992, consist of the following (in thousands):

	<u>Federal</u>	<u>Non-Federal</u>	<u>Total</u>
Reimbursable services	\$77	\$ 4,267	\$ 4,344
User fees	-	<u>47,938</u>	<u>47,938</u>
	77	52,205	52,282
Less amounts deemed uncollectible	-	<u>7,789</u>	<u>7,789</u>
Receivables from reimbursable services and user fees	<u>\$77</u>	<u>\$44,416</u>	<u>\$44,493</u>

The activity in the account for amounts deemed uncollectible for fiscal year 1992 is as follows (in thousands):

	<u>Federal</u>	<u>Non-Federal</u>	<u>Total</u>
Balance, October 1, 1991	\$ -	\$ 933	\$ 933
Increase for amounts deemed uncollectible	-	<u>6,856</u>	<u>6,856</u>
Balance, September 30, 1992	<u>\$ -</u>	<u>\$7,789</u>	<u>\$7,789</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Property, Plant and Equipment:

Property, plant and equipment as of September 30, 1992, consist of the following (in thousands):

	<u>Amount</u>
Aircraft	<u>\$349,322</u>
Other:	
Land	\$ 74
Buildings	7,508
Other structures and facilities	34,435
Leasehold improvements	2,327
Equipment:	
Vehicles	71,458
Vessels	22,545
Other	166,050
Capitalized leased assets, principally equipment	49,573
Construction in progress	<u>8,978</u>
Total other property	<u>362,948</u>
Total property, plant and equipment	<u>\$712,270</u>
Custodial	<u>\$ 2,652</u>
Operating - aircraft	349,322
- other	<u>360,296</u>
Total operating property	<u>709,618</u>
Total property, plant and equipment	<u>\$712,270</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment (continued):

Property, plant and equipment as of September 30, 1992, and an analysis of the changes for fiscal year 1992, are as follows (in thousands):

<u>Category</u>	Balance, October 1, 1991	Additions	Deletions	Balance, September 30, 1992
Land	\$ 74	\$ -	\$ -	\$ 74
Buildings	7,489	70	51	7,508
Other structures and facilities	34,435	-	-	34,435
Leasehold improvements	1,505	822	-	2,327
Equipment:				
Vehicles	69,199	7,455	5,196	71,458
Vessels	24,692	1,141	3,288	22,545
Aircraft	285,020	64,365	63	349,322
Other	90,949	84,989	9,888	166,050
Capitalized leased assets, principally equipment	44,983	7,925	3,335	49,573
Construction in progress	-	8,978	-	8,978
	<u>\$558,346</u>	<u>\$175,745</u>	<u>\$21,821</u>	<u>\$712,270</u>
Custodial assets	\$ 2,652	\$ -	\$ -	\$ 2,652
Operating assets	<u>555,694</u>	<u>175,745</u>	<u>21,821</u>	<u>709,618</u>
	<u>\$558,346</u>	<u>\$175,745</u>	<u>\$21,821</u>	<u>\$712,270</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment (continued)

An aging of property, plant and equipment as of September 30, 1992 is as follows
 (in thousands):

	Aged Period (by year of addition)					Total
	1992	1991	1990	1989	1988 & prior	
Land	\$ -	\$ -	\$ -	\$ -	\$ 74	\$ 74
Buildings	70	454	371	158	6,455	7,508
Other structures and facilities	-	-	-	23,193	11,242	34,435
Leasehold improvements	822	1,390	80	35	-	2,327
Equipment:						
Vehicles	7,455	12,757	12,260	13,117	25,869	71,458
Vessels	1,141	1,304	1,239	1,581	17,280	22,545
Aircraft	64,365	42,529	26,304	85,348	130,776	349,322
Other	84,989	11,077	8,379	9,434	52,171	166,050
Capitalized leased assets, principally equipment	7,925	4,816	18,059	8,015	10,758	49,573
Construction in progress	8,978	-	-	-	-	8,978
	<u>\$175,745</u>	<u>\$74,327</u>	<u>\$66,692</u>	<u>\$140,881</u>	<u>\$254,625</u>	<u>\$712,270</u>
Custodial assets	\$ -	\$ 2,652	\$ -	\$ -	\$ -	\$ 2,652
Operating assets	<u>175,745</u>	<u>71,675</u>	<u>66,692</u>	<u>140,881</u>	<u>254,625</u>	<u>709,618</u>
	<u>\$175,745</u>	<u>\$74,327</u>	<u>\$66,692</u>	<u>\$140,881</u>	<u>\$254,625</u>	<u>\$712,270</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment (continued):

The estimated life and replacement cost (unaudited) by category of property, plant and equipment is as follows (in thousands):

	Estimated Replacement Cost						Total
	1992 and prior	1993	1994	1995	1996	1997 and Thereafter	
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74	\$ 74
Buildings	-	-	-	-	-	13,284	13,284
Other structures and facilities	-	-	-	-	-	35,903	35,903
Leasehold improvements	-	-	-	-	-	2,353	2,353
Equipment:							
Vehicles	7,741	12,162	9,895	14,639	13,278	20,761	78,476
Vessels	-	1,151	478	5,095	3,879	15,366	25,969
Aircraft	-	20,265	66	40,347	15,657	326,324	402,659
Other	36,305	11,478	8,450	7,861	10,859	81,963	156,916
Capitalized leased assets, principally equipment	-	-	-	465	1,960	32,415	34,840
Construction in progress	-	-	-	-	-	8,978	8,978
	<u>\$44,046</u>	<u>\$45,056</u>	<u>\$18,889</u>	<u>\$68,407</u>	<u>\$45,633</u>	<u>\$537,421</u>	<u>\$759,452</u>

The above schedule was prepared using estimated 1992 replacement costs. The year of replacement was identified by assuming all assets will be replaced in the final year of its service life. Assets included in the 1992 and prior category continue to be used beyond their estimated service lives.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Accrued Refunds and Drawbacks:

Refunds include overpayments, duplicate payments, etc., to importers/exporters, while drawbacks are payments to importers for a portion of duties and taxes collected on imported goods where the goods are subsequently exported to a foreign market. Drawbacks consist of two types; accelerated and non-accelerated. Accelerated drawbacks are where the importer/exporter automatically receives the claimed return of previously paid duties and taxes when they file the claim for a drawback. As of September 30, 1992, the liability for accelerated drawbacks and refunds was approximately \$34 million. This liability has been recorded on the Consolidated Statement of Financial Position. Non-accelerated drawbacks occur when the approval to apply for an accelerated refund or drawback has not been granted. In the non-accelerated situation the importer/exporter has three years to file the claim (verification of the import and subsequent export) and Customs has an additional two years to verify and approve the payment. Customs is not able to predict the dollar volume of the non-accelerated refunds and drawbacks. Any required payment will be in the normal course of business and will be paid from the congressional appropriation specifically received for refunds and drawbacks. During the fiscal year ending September 30, 1992, \$775 million was expensed for refunds and drawbacks.

10. Changes in Custodial Net Position:

Changes in custodial net position for the year ended September 30, 1992, consisted of the following (in thousands):

	<u>No-Year Appropriations</u>	<u>Future Funding Requirements</u>
Balance, October 1, 1991	\$33,036	\$ (413)
Appropriations for fiscal year 1992	742,298	-
Net change for 1992	-	-
Appropriations expended for refunds and drawbacks	(775,325)	-
Future funding requirements expensed for fiscal year 1992	-	(34,031)
Total other changes	(33,027)	(34,031)
Balance, September 30, 1992	<u>\$ 9</u>	<u>\$(34,444)</u>

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Accrued Payroll and Benefits:

Accrued payroll and benefits as of September 30, 1992, consist of the following (in thousands):

	<u>Amount</u>
Salaries	\$67,837
FICA, unemployment and other payroll related taxes	2,489
Insurance	6,166
Retirement benefits	2,989
Other	<u>1,961</u>
	<u>\$81,442</u>

12. Leases:

Operating Leases

Customs leases various facilities and equipment under leases accounted for as operating leases. Lease expense under these arrangements totaled \$9.7 million for the year ending September 30, 1992. Assets held under these leases consist primarily of offices, warehouses, vehicles and other equipment.

As of September 30, 1992, future minimum lease commitments under noncancelable operating leases are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
1993	\$5,480
1994	109
1995 and thereafter	<u>45</u>
Total future minimum lease commitments	<u>\$5,634</u>

Much of the office space occupied by Customs is either owned by the Federal government or is leased by the General Services Administration from commercial sources. In either case, the space is assigned to Customs by GSA based upon current needs. Customs is not committed to continue to pay rent to GSA beyond the period occupied. However, it is expected that Customs will continue to occupy and lease office space from GSA in future years, and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease expense paid to GSA during fiscal year 1992 was \$98.6 million.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases (continued):

Capital Lease Obligations

Customs has a number of capital lease agreements primarily involving mainframe computer equipment and other office equipment. All assets acquired under the capital lease agreements have been capitalized and the related obligations are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 1992, the acquisition costs of the mainframe computer equipment and other office equipment still subject to lease payments are \$35.1 million and \$2.2 million, respectively. Certain of the leases are cancelable upon certain funding conditions. Lease terms generally range from 36 to 48 months.

Future minimum lease payments under the capitalized lease and the present value of the minimum lease obligation as of September 30, 1992, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
1993	\$ 9,169
1994	4,936
1995	3,831
1996	1,717
1997 and thereafter	<u>48</u>
Total future minimum lease payments	19,701
Less: Imputed interest	<u>(2,708)</u>
Total net present value of capital lease obligation	<u>\$16,993</u>

Substantially, all of the net present value of capital lease obligations is expected to be funded from future funding sources and is presented as a component of unfunded operating liabilities on the Consolidated Statement of Financial Position.

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies:

Customs is a party to various administrative proceedings, legal actions, and claims brought by or against it. Any financial unfavorable court decisions will be funded from an appropriation within the Department of Justice or from the Customs appropriation for refunds and drawbacks except as noted in the following paragraphs. In the opinion of Customs' management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operations of Customs.

In July 1992 legal action was brought against Customs for eligibility of overtime compensation for certain grades of employees. Customs has agreed in principal to the claim and is in the process of determining the amount of compensation to be paid. It has not been determined whether the claim will be fully or partially funded by the Department of Justice or from Customs' appropriations.

Customs is also involved in an administrative proceeding where a certain grade of employees eligible to work in a "home to work" program were not adequately compensated. Currently the amount of the liability and whether payment will be fully or partially funded by the Department of Justice or from Customs' appropriation has not been determined.

Financial Statements

DEPARTMENT OF THE TREASURY, UNITED STATES CUSTOMS SERVICE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

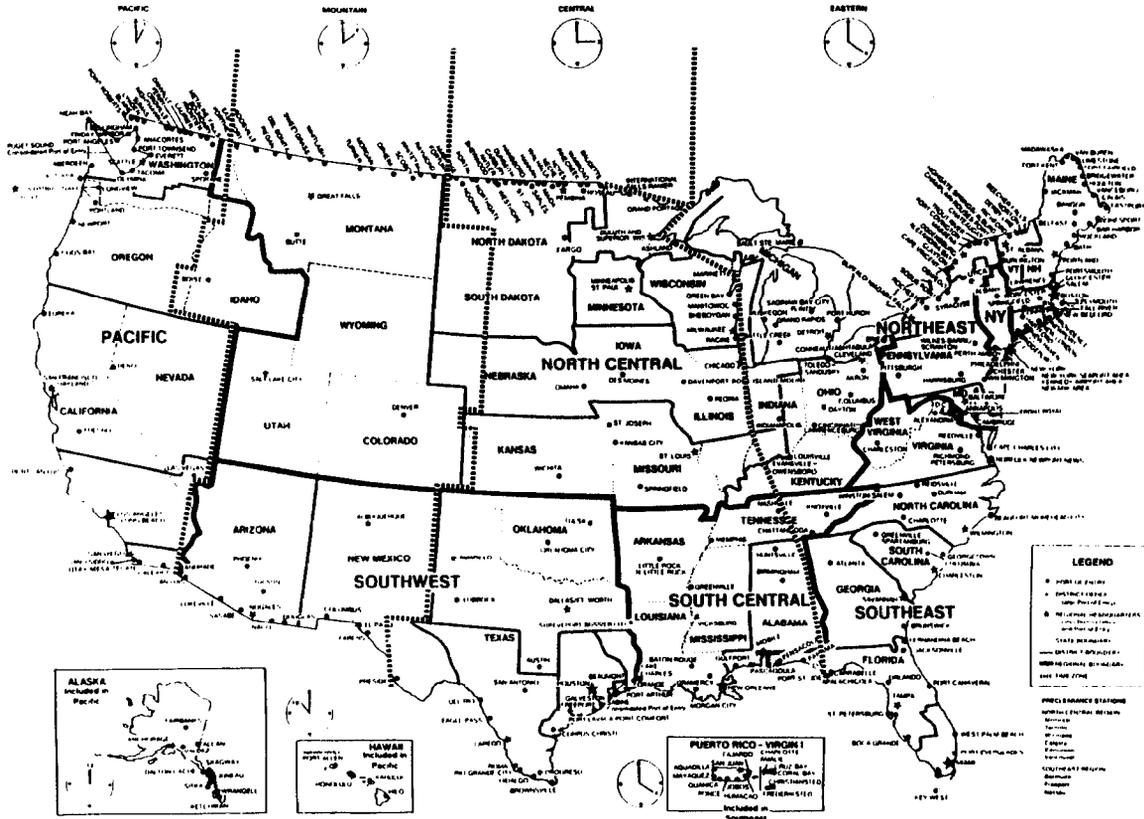
14. Changes in Operating Net Position:

Changes in operating net position for the year ended September 30, 1992 consisted of the following (in thousands):

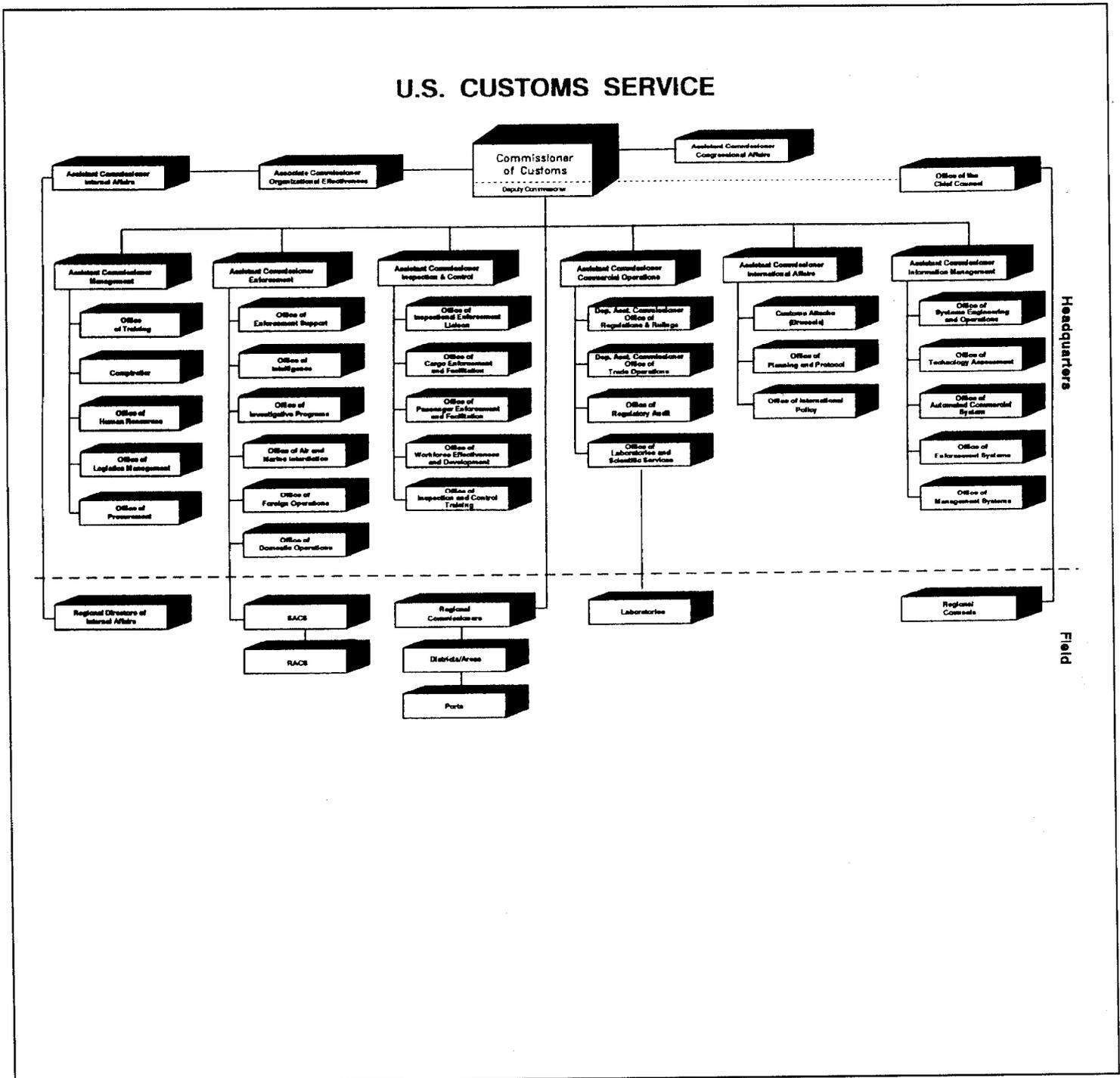
	<u>Appropriated Funds with Treasury</u>							Total Other Changes
	Authorized Retained Capital	Unliquidated Obligations	No-Year and Other Appropriations	Reserve for Advances & Prepayments	Total Invested Capital	Cumulative Results of Operations	Future Funding Requirements	
Balances as of October 1, 1991	\$15,000	\$360,618	\$ 157,588	\$21,121	\$610,095	\$169,221	\$(95,731)	\$1,237,912
Excess of financing over funded operating expenses	-	-	-	-	-	41,238	-	41,238
	<u>15,000</u>	<u>360,618</u>	<u>157,588</u>	<u>21,121</u>	<u>610,095</u>	<u>210,459</u>	<u>(95,731)</u>	<u>1,279,150</u>
Appropriations for fiscal year 1992	-	-	1,456,409	-	-	-	-	1,456,409
Appropriations expended for operations	-	-	(1,335,156)	-	(20,408)	-	-	(1,355,564)
Appropriations and other amounts expended for invested capital	-	-	(204,772)	-	201,943	-	2,829	-
Net change for 1992	(14,762)	826	(5,334)	(13,395)	-	-	-	(32,665)
Disposals of invested capital	-	-	-	-	(21,821)	-	-	(21,821)
Future funding requirements made	-	-	-	-	-	-	(24,535)	(24,535)
Future funding requirements expended	-	-	-	-	-	-	8,742	8,742
Total other changes	<u>(14,762)</u>	<u>826</u>	<u>(88,853)</u>	<u>(13,395)</u>	<u>159,714</u>	<u>-</u>	<u>(12,964)</u>	<u>30,566</u>
Balances as of September 30, 1992	<u>\$ 238</u>	<u>\$361,444</u>	<u>\$ 68,735</u>	<u>\$ 7,726</u>	<u>\$769,809</u>	<u>\$210,459</u>	<u>\$(108,695)</u>	<u>\$1,309,716</u>

Supplemental Financial and Management Information

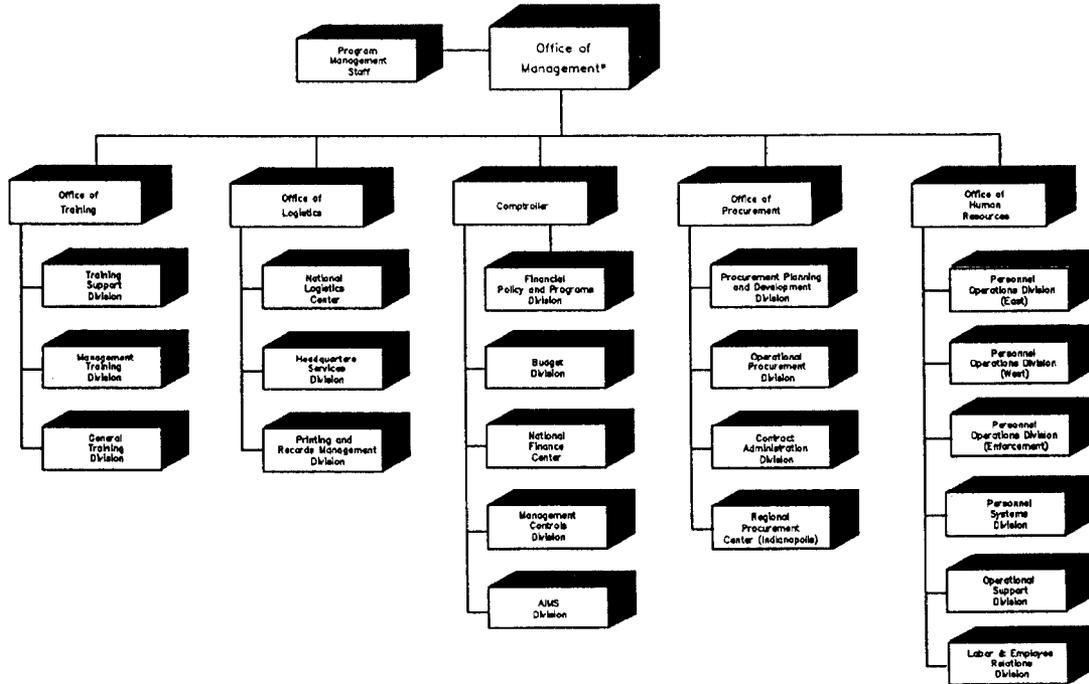
U.S. CUSTOMS SERVICE



U.S. CUSTOMS SERVICE



OFFICE OF MANAGEMENT



*The Assistant Commissioner for Management serves as the Chief Financial Officer for Customs.

Department of the Treasury
United States Customs Service

Supplemental Financial and Management Information

REPORTABLE FUNDS

CUSTODIAL FUNDS

General Fund Receipt Accounts

Budget Clearing Account
Proceeds of Sale, Personal Property, U.S. Customs Service
Deposit in Transit Differences (Suspense)
General Fund Proprietary Receipts , Not Otherwise Classified,
 All Other (Charges for Testing, Inspecting & Grading,
 Department of Health & Human Services)
Overtime Service, Federal Communications Commission
General Fund Proprietary Interest, Not Otherwise Classified
Fines, Penalties, and Forfeitures, Not Otherwise Classified
 (Department of Health & Human Resources)
Duties on Imports
General Fund Proprietary Receipts , Not Otherwise Classified, All Other,
 U.S. Customs Service
Excise Taxes
Miscellaneous Taxes, Not Otherwise Classified
Contributions to Conscience Fund
Fines, Penalties & Forfeitures, Agriculture Laws
Fines, Penalties & Forfeitures, Customs, Commerce and Antitrust Laws
Forfeitures of Unclaimed Money and Property
Fines, Penalties, and Forfeitures, Not Otherwise Classified
Overtime Service, Marine Inspection and Navigation, Treasury,
 Transportation
Customs User Fee Account
Fines, Penalties, and Forfeitures, Immigration and Labor Laws
General Fund Proprietary Receipts, Not Otherwise Classified, All Other
 (Consumer Product Safety Commission)
Other Repayments of Investment and Recoveries
Fines, Penalties, and Forfeitures, Not Otherwise Classified,
 Dept. of Justice

General Funds

Refunds & Drawbacks, U.S. Customs Service, Indefinite

Deposit Funds

Suspense, Public Debt, Government Accounts Series
Duties Collected for the Virgin Islands Government,
 U.S. Customs Service, Treasury Department
Suspense, U.S. Customs Service
Return of Deposits to Secure Payment of Fines and Passage Money,
 Immigration and Naturalization Service
Assessments on Imports of Beef and Pork Products, Agricultural
 Marketing Service

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Department of the Treasury
United States Customs Service

Supplemental Financial and Management Information

REPORTABLE FUNDS

CUSTODIAL FUNDS (continued)

Special Funds

Customs Forfeiture Fund
Refunds, Transfers and Expenses of Operation, Puerto Rico,
U.S. Customs Service
Refunds, Transfers and Expenses of Operation, Virgin Islands,
U.S. Customs Service
Payments from Forfeited Assets, U.S. Customs Service
Customs Merchandise Processing Fee, U.S. Customs Service
30% of Customs Duties, on Wool, Reimbursement for Costs of
National Wool Act
Import Duties on Arms and Ammunition
Immigration User Fees
Agricultural Quarantine Inspection User Fees Account,
Animal and Plant Health Inspection Service

Trust Funds

Various Miscellaneous Trust Funds

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Department of the Treasury
United States Customs Service

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REPORTABLE FUNDS

CUSTODIAL FUNDS (continued)

Special Funds

Customs Forfeiture Fund
Refunds, Transfers and Expenses of Operation, Puerto Rico,
U.S. Customs Service
Refunds, Transfers and Expenses of Operation, Virgin Islands,
U.S. Customs Service
Payments from Forfeited Assets, U.S. Customs Service
Customs Merchandise Processing Fee, U.S. Customs Service
30% of Customs Duties, on Wool, Reimbursement for Costs of
National Wool Act
Import Duties on Arms and Ammunition
Immigration User Fees
Agricultural Quarantine Inspection User Fees Account,
Animal and Plant Health Inspection Service

Trust Funds

Various Miscellaneous Trust Funds